

Section 8.11. Money Held for Particular Modal Securities.

Amounts held hereunder for the payment of principal (and premium, if any) of and interest on particular Modal Securities shall be held in trust solely for the Modal Holders thereof. As used in this Section, the meaning of *principal* and *interest* includes Purchase Price.

Article IX
Bond Insurance Policy and Financial Facilities

Section 9.01. When Required.

(a) Each Variable Rate Security shall be the subject of a Liquidity Facility *unless* such Variable Rate Security is an Excluded Liquidity Facility Security.

(b) Each Modal Security shall be the subject of Credit Enhancement *unless* such Modal Security is an Excluded Credit Enhancement Security.

(c) The City shall not be in default of its obligations contained in *subsection (a)*, above *if* a Liquidity Facility terminates by reason of a state or condition affecting the Provider of the Credit Enhancement or *if* the obligations of a Provider under its Financial Facility are subject to a stay or are otherwise affected by the insolvency or similar financial condition of such Provider *and* in any of the foregoing, the City is diligently proceeding to obtain a Substitute Financial Facility from a different Provider.

Section 9.02. Financial Facility Principal and Interest Requirements.

(a) ***Liquidity Facilities.*** Each Liquidity Facility required by *Section 9.01* for any Variable Rate Security shall have:

(1) a principal component at least equal to the principal amount of such Variable Rate Security and

(2) an interest component at least equal to such number of days' interest on such Variable Rate Security calculated at the Stated Maximum Rate using the applicable Day Count Convention as shall be necessary to obtain a Rating Confirmation for such Variable Rate Security.

(b) ***Credit Facilities.*** Each Credit Facility required by *Section 9.01* for a Modal Security shall:

(1) have a principal component at least equal the principal amount of such Modal Security *plus* (if included in the initial Credit Facility) the maximum redemption premium, if any, payable on the redemption thereof;

(2) have an interest component at least equal to such number of days' interest on such Modal Security calculated at the Stated Maximum Rate using the applicable Day Count Convention as shall be necessary to obtain a Rating Confirmation for such Modal Security; and

(3) provide that non-reinstatement of the interest component is a Termination Event.

(c) ***When Requirements not Duplicative.*** If a Liquidity Facility and a Credit Facility is combined in a single Financial Facility, there shall be a single principal and interest requirement of the Financial Facility.

(d) ***Exclusion of Provider Securities.*** No Provider Security shall be the subject of a Liquidity Facility.

Section 9.03. Terms of Conforming Financial Facilities.

A Conforming Financial Facility shall:

(1) meet the requirements of *Section 9.02* after giving effect to the purposes for which such Financial Facility is being acquired;

(2) become effective not later than the Expiry Date or the Termination Date, as applicable, of the Predecessor Financial Facility and may be conditioned on any mandatory tender draw to occur by reason of the substitution of a new Provider occurring under the Predecessor Financial Facility;

(3) have a Expiry Date that is a Modal Business Day occurring no sooner than the earlier of (i) 363 days after the date on which such Financial Facility becomes effective (i.e., such Financial Facility shall have a term of at least 364 days) and (ii) the last maturity date of the Securities for which such Financial Facility is being acquired;

(4) *if* such Financial Facility is a letter of credit, name the Tender Agent as the beneficiary and be transferrable to any successor Tender Agent;

(5) provide at least comparable notice periods and opportunities to draw funds thereunder as the Predecessor Financial Facility provided upon the occurrence of a Termination Event;

(6) provide that payments to the Tender Agent thereunder shall be paid in funds of the Provider immediately available to the Tender Agent on the day such payment is due; and

(7) provide for drawings or other payments thereunder to be made on terms otherwise at least equivalent in substance to the terms of the Predecessor Financial Facility and be in form and substance satisfactory to the Tender Agent.

Section 9.04. Substitution of Financial Facilities.

(a) *Substitute Financial Facility* means (i) a new Financial Facility (regardless of whether the Provider thereof is a new Provider or the Provider of the Predecessor Financial Facility) to be substituted for the Predecessor Financial Facility and (ii) any amendment or modification in any material adverse respect of an existing Financial Facility with respect to the Modal Securities covered by such Financial Facility. *Substitute* has the correlative meaning when used with respect to any Credit Enhancement or any Liquidity Facility.

(b) The City shall not execute any Substitute Financial Facility *unless*:

(1) the City determines that such Substitute Financial Facility is a Conforming Financial Facility;

(2) it has obtained, as applicable:

(i) in the case of a Substitute Liquidity Facility, the consent of the Provider of any Credit Enhancement covering Modal Securities that are also the subject of such Substitute Liquidity Facility or

(ii) in the case of Substitute Credit Enhancement, the consent of the Provider of any Liquidity Facility covering Modal Securities that are also the subject of such Substitute Credit Enhancement; and

(3) the City has obtained a Rating Confirmation.

(c) At the direction of the Finance Director, the Tender Agent shall accept any Substitute Financial Facility in substitution for its Predecessor Financial Facility *if*

(1) the Tender Agent has received and then holds:

(i) a certificate of the Finance Director that the City has determined that such Substitute Financial Facility is a Conforming Financial Facility

(ii) a Favorable Bond Counsel's Opinion with respect to such Substitute Financial Facility and

(iii) such consents as are required by *subsection (b)(2)*, above and

(iv) the Rating Confirmation required by *subsection (b)(3)* and

(2) *if* the Provider of such Substitute Financial Facility is a new Provider the Finance Director has given the Tender Agent notice of such substitution not later the minimum number of days required by *Section 6.02* for notices given in connection with mandatory tender by reason of a new Provider *plus* 15 days (or such fewer days in advance of such minimum number as may be acceptable to the Tender Agent).

Section 9.05. Excluded Securities.

(a) No Variable Rate Security shall be excluded from the benefits of a Financial Facility *except* in accordance with this Section.

(b) Modal Securities that:

(1) have the benefit of a Liquidity Facility is eligible to be excluded by the Finance Director from the benefits of Credit Enhancement *only* to the extent that the Finance Director is permitted to do so by the Provider of such Liquidity Facility and

(2) have the benefit of Credit Enhancement is eligible to be excluded by the Finance Director from the benefits of a Liquidity Facility *only* to the extent that the Finance Director is permitted to do so by the Provider of such Credit Enhancement.

(c) In connection with any Mode change, any Modal Security eligible under *subsection (b)*, above, to be excluded from the benefits of a Financial Facility may be excluded by the Finance Director *only* to the extent the Finance Director is permitted to do so by the terms of such Financial Facility *and only if*:

(1) the Rating Agencies were given notice of the City's intention to exclude such Securities when such Mode change becomes effective and

(2) the Modal Holders of such Modal Securities were given notice, in accordance with *Section 4.09*, of the Finance Director's intention to exclude such Securities when such Mode change becomes effective.

Section 9.06. Reduction and Cancellation.

(a) The Finance Director may direct the Tender Agent to reduce the principal and interest components of the relevant Financial Facility to take into account Excluded Securities (or either Excluded Credit Enhancement Securities or Excluded Liquidity Facility Securities), *but* such reduction shall not take effect until the related Mode change has become effective.

(b) The Finance Director may direct the Tender Agent to reduce the principal and interest components of the Financial Facility to take into account any Securities that are no longer "outstanding".

(c) Whenever, with reference to any particular Financial Facility, all outstanding Modal Securities are Excluded Securities as to such Financial Facility, the Finance Director may direct the Tender Agent to cancel such Financial Facility.

(d) Whenever no Modal Securities are outstanding, the Finance Director may direct the Tender Agent to cancel each Financial Facility to the extent it may be canceled.

(e) The Tender Agent shall reduce or cancel Financial Facilities as directed by the Finance Director in accordance with this Section.

Section 9.07. Termination by Provider.

(a) Each Notice Party shall give every other Notice Party notice of every Termination Notice received by it and of its contents within two Modal Business Days of its receipt.

(b) As soon as practicable, the Tender Agent shall give notice to the Modal Holders of Securities affected by a Termination Event of such Termination Event and, if such Termination is a Last Put Termination Notice, of the Purchase Date.

(c) In the case of a Last Put Termination and in order to give the Modal Holders of affected Securities as much advance notice of the Purchase Date to be established in respect thereof as possible under the circumstances, the Tender Agent shall establish such Purchase Date as long after the date on which the Tender Agent gives notice to the Modal Holders of Securities affected by the Last Put Termination as it can *subject* to the following:

(1) No advance notice of such Purchase Date is required if the Tender Agent cannot give such advance notice in the exercise of reasonable diligence.

(2) In all events the Purchase Date shall be a Modal Business Day at least five days before the Last Put Termination Date *unless* the Tender Agent cannot so provide in the exercise of reasonable diligence *provided* that the Purchase Date shall be the date set by the Provider *if* the Liquidity Facility provides in effect that:

The obligation of the Provider to purchase Tender Securities shall terminate upon the purchase by the Provider of all Tender Securities tendered or deemed tendered pursuant to the Last Put Termination Notice.

(d) For the purposes of this Section:

(1) *As soon as practicable* means, with reference to any act to be performed by the Tender Agent, such Modal Business Day on which the Tender Agent can perform such act in the exercise of reasonable diligence.

(2) *Reasonable diligence* means, with respect to the Tender Agent performing any act, performing such act within three Modal Business Days, after the Tender Agent receives a Termination Notice from the Provider or another Notice Party.

Article X Bond Insurance

Section 10.01. Location of Provisions.

Terms and provisions relating to the *FSA Insured Securities* appear in *Exhibit 10.01*, and terms and provisions relating to *FGIC Insured Securities* appear in the Financial Guaranty Insurance Company Supplement.

Article XI Concerning the Tender Agent and the Remarketing Agent

Section 11.01. Tender Agent; Qualifications.

(a) For so long as there are any Variable Rate Securities outstanding, there shall be a Tender Agent, and no resignation of a Tender Agent shall become effective unless a successor has accepted its appointment and the Financial Facilities then in effect have been transferred to it.

(b) Any Person serving as Tender Agent shall be a commercial bank with trust powers or a trust company.

Section 11.02. Responsibilities of Tender Agent.

(a) As regards this Agreement:

(1) The Tender Agent undertakes to perform such duties and only such duties as are specifically set forth herein, and no implied covenants or obligations shall be read into this Agreement against the Tender Agent.

(2) The Tender Agent may rely and shall be protected in acting or refraining from acting upon any resolution, certificates, Statement, instrument, opinion, report, notice, request, direction, consent, order or other paper or document believed by it to be genuine and to have been signed or presented by the proper parties.

(3) Whenever in the administration of this Agreement the Tender Agent shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, it may (unless other evidence is herein specifically prescribed), in the

absence of bad faith on its part, request and rely on a certificate executed by the Finance Director.

(4) The Tender Agent may consult with counsel and the written advice or opinion of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith and in reliance thereon.

(5) The Tender Agent is bound to make any investigation into the facts or matters City in any resolution, certificates, Statement, instrument, opinion, report, notice, request, direction, consent, order or other paper or document, *but* it may make such further inquiry into such facts or matters as it may see fit.

(b) In the absence of bad faith on its part, Tender Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certifications and opinions furnished to it and conforming to the requirements of this Agreement; *but*, in the case of any certificates or opinions that by any provision hereof are specifically required to be furnished to Tender Agent, it shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Agreement.

(c) No provision of this Agreement shall require the Tender Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that the repayment of such funds or adequate assurance against such risk or liability is not reasonably assured to it.

Section 11.03. Remarketing Agent.

(a) The Remarketing Agent shall have such rights, duties, privileges and immunities as are contained in the Remarketing Agreement and not inconsistent with this Agreement; *provided* that in all events the Remarketing Agent is obligated to perform such duties as are herein set forth to be performed by the Remarketing Agent notwithstanding any thing to the contrary contained in the Remarketing Agreement.

(b) Each Liquidity Provider shall have the right to remove the Remarketing Agent in the event of a material breach by the Remarketing Agent of its duties hereunder or under the Remarketing Agreement and to consent to any successor Remarketing Agent.

Article XII Miscellaneous

Section 12.01. Limitation on Defeasance.

The City shall not defease the lien of the Bond Ordinance securing any Short-Term Securities by the deposit of funds in escrow (commonly known as a "legal defeasance") without obtaining a Rating Confirmation from each Rating Agency of the Short-Term Securities so defeased.

Section 12.02. Amendments.

(a) This Agreement cannot be amended or supplemented *except* in accordance with this Section.

(b) No amendment of, or supplement to, this Agreement shall become effective without the consent of the Transfer Agent and Tender Agent (which shall be evidenced by the execution of such amendment), each Bond Insurer and Provider and the Remarketing Agent. Every other subsection of this Section is subject to the limitations contained in this subsection.

(c) The Finance Director shall provide each Rating Agency with a copy of each amendment or supplement at least 15 days in advance of the same becoming effective.

(d) For the purpose of acquiring consent for the purposes of the Bond Ordinances or otherwise, the consent of a Modal Securityholder acquiring a Modal Security in a remarketing in which the remarketing circular or other disclosure document fully disclosed the terms of such amendment or supplement shall be considered obtained as if such consents were being solicited under the Bond Ordinance or otherwise, but no actual consent shall be required and no more than one such disclosure shall be required.

(e) If an amendment by its terms affects only a Series, the consent of Modal Holders of other Series is not required.

(f) Upon any amendment or supplement becoming effective, each Provider shall be provided with a copy of such amendment or supplement.

Section 12.03. Notices to Rating Agencies.

The Finance Director shall give notice to each Rating Agency of any the following promptly on the occurrence thereof: (i) the expiration, termination, extension or substitution of any Liquidity Facility or any amendment or modification of, or any material change to, any Liquidity Facility, (ii) any redemption or defeasance of Series 2001 Securities, (iii) any Mode change, (iv) any mandatory tender of Modal Securities, (v) any change in the Transfer Agent, Remarketing Agent or Tender Agent, (vi) any amendment of this Agreement and (vii) any issuance of additional Securities that on a parity with any Modal Securities.

Section 12.04. Notices.

(a) Each notice, request or other communication given hereunder to be given to any person named below shall be in writing or otherwise given by Electronic Means (except as provided below) and given to it at its address appearing below or to such other address as it may hereafter specify for such purpose by notice to the others named below.

City of Detroit

Coleman A. Young Municipal Center
Room 1200
2 Woodward Avenue
Detroit, Michigan 48226
Attention: Finance Director

U. S. Bank Trust National Association, as Transfer Agent

535 Griswold, Suite 550
Detroit, Michigan 48226
Attention: Corporate Trust Services

U. S. Bank Trust National Association, as Tender Agent

100 Wall Street
New York, New York 10005
Attention: Corporate Trust Services

Financial Security Assurance, as Bond Insurer

As provided in *Exhibit 10.01*.
Electronic Means requires prior consent

Dexia Credit Local, New York Agency, as Liquidity Facility Provider

445 Park Avenue
New York, New York 10022
Attention: General Manager
Electronic Means requires prior consent.

Standard & Poor's Ratings Services

55 Water Street, 38th Floor
New York, New York 10041

Moody's Investors Services

99 Church Street
New York, New York 10007
Attention: Fully Supported Group

Fitch, Inc.

One State Street Plaza
New York, New York 10004
Attn: Municipal Structure Group

(b) Each notice, request or other communication given hereunder shall be effective, (i) if given by mail, 72 hours after it is deposited in the United States Mail with first class postage prepaid, addressed to the recipient at its Notice Address and (ii) if given by another means, when delivered at its Notice Address.

Section 12.05. Severability.

In the event that any provision of this Agreement is held to be invalid in any circumstance, such invalidity shall not affect any other provision or circumstances.

Section 12.06. Payments Due and Acts to be Performed on Non-Modal Business Days.

If a date of maturity of interest on or principal of the Securities or any Redemption Date or Purchase Date, or a date fixed for the performance of any other act under this Agreement, shall not be a Modal Business Day, payment of such interest or principal, Redemption Price or Purchase Price need not be made, and any such other act need not be performed, on such date but may be made or performed on the next succeeding Modal Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and, *except* as otherwise herein provided, no interest on any amount so paid shall accrue for the period after such date.

Section 12.07. Captions; Table of Contents.

The captions or headings in, and the table of contents for, this Agreement are for convenience only and in no way define, limit or describe the scope or content of any provision hereof.

Section 12.08. Counterparts.

This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 12.09. Governing Law.

This Agreement shall be governed by the law of the State exclusive of its conflicts of law.

[Signatures follow beginning with page S-1]

*[Signature Page to the Variable Rate Mode
Supplement and Agreement, dated as of -
September 1, 2001, among the City of Detroit,
U. S. Bank Trust National Association, as
Transfer Agent, and U. S. Bank Trust
National Association, as Tender Agent]*

In Witness Whereof, the City of Detroit has caused these presents to be signed by its Finance Director, U. S. Bank Trust National Association, as Transfer Agent under the Sale Order and U. S. Bank Trust National Association, as Tender Agent, to evidence its acceptance of the duties of Tender Agent has caused these presents to be executed in its behalf by its authorized representative, all as of the date first above written.

City of Detroit

By: _____


J. Edward Hannan
Finance Director


[Signatures of Transfer Agent and Tender Agent follow on page S-2]

S-1

*Signature Page to the Variable Rate Mode
Supplement and Agreement, dated as of -
September 1, 2001, among the City of Detroit,
U. S. Bank Trust National Association, as
Transfer Agent, and U. S. Bank Trust
National Association, as Tender Agent]*

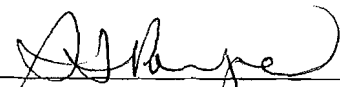
U. S. Bank Trust National Association,

as Transfer Agent

By: 
Susan T. Payne
Its: Vice President

U. S. Bank Trust National Association,

as Tender Agent

By: 
Susan T. Payne
Its: Vice President

*Signature Page to the Variable Rate Mode
Supplement and Agreement, dated as of -
September 1, 2001, among the City of Detroit,
U. S. Bank Trust National Association, as
Transfer Agent, and U. S. Bank Trust
National Association, as Tender Agent]*

Acceptance of Remarketing Agent

UBS PaineWebber Inc. hereby accepts the duties of Remarketing Agent contained in the Agreement and agrees to the removal provisions contained in Section 11.03. .

UBS PaineWebber Inc.,
as Remarketing Agent

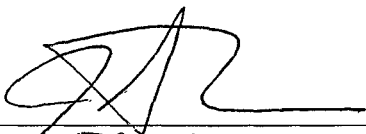
By: 
Name: Jeffrey Schreyer
Its: Managing Director

Exhibit 5

**Sale Order of Finance Director of the City of Detroit
with respect to
\$192,290,000
City of Detroit Water Supply System Revenue Refunding Second Lien Bonds
(Variable Rate Demand), Series 2001-C**

Whereas, on January 31, 2001 the City Council (the *City Council*) of the City of Detroit (the City) adopted a resolution captioned in relevant part *A Resolution Authorizing the Issuance and Sale of Water Supply System Revenue Bonds of the City of Detroit of Equal Standing with the City's Water Supply System Revenue Bonds and Water Supply System Revenue Refunding Bonds Now Outstanding and Which May Remain Outstanding*, which was amended on April 25, 2001 (as amended, the *Bond Authorizing Resolution*), pursuant to the provisions of Ordinance No. 30-95 as amended by Ordinance No. 34-95, Ordinance No. 23-97, and Ordinance No. 34-99 (the *Ordinances* and, together with the Bond Authorizing Resolution, the *Bond Resolution*), and Act 94, Public Acts of Michigan, 1933, as amended (*Act 94*); and

Whereas, the City, under the provisions of the Bond Resolution, is authorized to sell and deliver Bonds in series pursuant to an order of the Finance Director of the City (the *Sale Order*), within the parameters established by the Bond Authorizing Resolution; and

Whereas, the City desires to issue a series of Bonds under the Bond Resolution (the *Series 2001-C Bonds*) for the purpose of refunding certain Series 1999A Term Bonds (2022, 2026 and 2029) (the *Bonds to be Refunded*) issued previously to defray the cost of constructing certain, repairs, extensions and improvements to the City's Water Supply System (the *System*); and

Whereas, pursuant to the terms of the Bond Resolution the City intends to obtain a policy of municipal bond insurance to insure and a liquid financial facility to support the Series 2001-C Bonds; and

Whereas, the City desires to sell the Series 2001-C Bonds to the purchasers thereof (the *Underwriters*) pursuant to a Bond Purchase Agreement (the *Bond Purchase Agreement*) between the City and the Underwriters, dated the date of this Sale Order, in the amounts, at the prices, with the variable interest rates and other terms, specified in the Bond Authorizing Resolution and in this Sale Order; and

Whereas, the Bond Authorizing Resolution authorized the form of bonds to be approved in this Sale Order; and

Whereas, the terms not otherwise defined in this Sale Order shall have the meanings ascribed thereto in the Bond Resolution.

Now, Therefore, the Finance Director of the City of Detroit hereby orders as follows:

1. The offer by the Underwriters to purchase the Series 2001-C Bonds upon the terms and conditions contained in the Purchase Contract, is approved and accepted, and the Series 2001-C Bonds are hereby authorized to be issued and shall be sold to the Underwriters in accordance with the terms and conditions contained in the Bond Resolution, this Sale Order and the Purchase Contract.

2. The Series 2001-C Bonds shall be issued as Second Lien Bonds under the Ordinances for the purpose of refunding the Bonds to be Refunded. Their title, nature, denominations, aggregate original principal amount, variable interest rate, dated date, final maturity date and related terms shall be as set forth in the Variable Rate Demand Bonds Supplement and Agreement attached hereto and incorporated herein by this reference (the "Supplement") and the purchase price, transfer agent, underwriters and underwriters' discount shall be as follows:

Purchase Price: \$192,290,000 (consisting of the original principal amount of \$192,290,000).

Transfer Agent: U.S. Bank Trust National Association, Detroit, Michigan

Underwriters: Siebert, Brandford Shank & Co., LLC
Goldman, Sachs & Co.

3. The commitments ("Commitment") (i) from FGIC Securities Purchase, Inc. ("FGIC-SPI") for liquidity support with respect to the Series 2001-C Bonds, pursuant to the Supplement, a Liquidity Facility, and (ii) from Financial Guaranty Insurance Company ("FGIC" or the "Bond Insurer") for bond insurance with respect to the Series 2001-C Bonds, pursuant to the Supplement Bond Insurance, are hereby accepted. The Finance Director hereby determines that the Liquidity Facility and the Bond Insurance are in the best interests of the City and the System.

In accordance with the terms of the Commitment for the Liquidity Facility, the City hereby makes the following covenants and agreements for the benefit of FGIC-SPI, to be applicable so long as any Series 2001-C Bond supported by the Liquidity Facility is outstanding:

(a) The Liquidity Facility applicable upon delivery of the Series 2001-C Bonds shall be a standby bond purchase agreement substantially in the customary form utilized by FGIC-SPI ("Standby Bond Purchase Agreement") which agreement shall have the benefit of a standby loan agreement from General Electric Capital Corporation. The Standby Bond Purchase Agreement shall be in a form acceptable to the City.

(b) FGIC-SPI shall be paid by the City fees and expenses required of the City in the Commitment.

(c) The City shall execute and deliver a payment agreement ("Payment Agreement") substantially in the customary form utilized by FGIC-SPI which shall be a form acceptable to the City. The liability of the City to make all payments under the Payment Agreement shall be secured on a parity with or on such other basis with the Bonds to the extent provided by the provisions of the Bond Resolution.

(d) The preliminary official statement and the official statement for the Series 2001-C Bonds shall include the disclosure language for the Liquidity Facility and Bond Insurance as specified by FGIC-SPI and FGIC, respectively with only such other references to FGIC-SPI and FGIC as FGIC-SPI and FGIC, respectively, shall approve. The interest rate exchange agreement or interest rate swap agreement entered into by the City with (i) Goldman Sachs & Co. and (ii) Morgan Stanley (the "Swap Agreement"), in connection with the issuance of the Series 2001-C Bonds, and any other swap agreement to be entered into by the City with the same or other parties in the future must adhere to the Swap Provider Guidelines attached as an exhibit to the Supplement. There shall be prepared and distributed to holders of the Series 2001-C Bonds an appropriate SEC Prospectus Supplement relating to the obligations of FGIC-SPI under the Liquidity Facility. The cost of printing the SEC Prospectus Supplement shall be borne by the City.

(e) The City agrees that FGIC-SPI shall not release any Series 2001-C Bond held by FGIC-SPI as a result of a drawing under the Liquidity Facility (Provider Bonds), to the Remarketing Agent unless it is paid concurrently the principal amount of such Provider Bonds, plus interest accrued thereon at the Provider Rate or the Default Rate (each as defined in the Standby Bond Purchase Agreement) plus any unpaid fees and expenses.

(f) No substitute Liquidity Facility may replace the Standby Bond Purchase Agreement executed and delivered by FGIC-SPI in support of the Series 2001-C Bonds unless all amounts owed to FGIC-SPI by the City in respect of Provider Bonds and under the Payment Agreement are totally paid.

(g) The Remarketing Agent during the term of the FGIC-SPI Liquidity Facility shall at all times be acceptable to FGIC-SPI and the Bond Insurer. FGIC-SPI and the Bond Insurer shall receive notice of the removal or resignation of the Remarketing Agent. The Remarketing Agreement shall be in form and substance satisfactory to FGIC and FGIC-SPI.

(h) Any Substitute Liquidity Facility shall not be substituted for a predecessor Liquidity Facility unless the liquidity facility requirements ("Liquidity Facility Requirements") attached as an exhibit to the Supplement are satisfied.

4. U.S. Bank Trust National Association, Detroit, Michigan, is hereby confirmed as Trustee and Transfer Agent under the Bond Resolution and is hereby appointed Transfer Agent for the Series 2001-C Bonds, and U.S. Bank Trust National Association, Detroit, Michigan, shall accept its duties as Trustee and Transfer Agent by execution of a written acceptance thereof.

U. S. Bank Trust National Association, New York, New York is hereby appointed Tender Agent under the Supplement. Goldman, Sachs & Co. or an affiliate of Goldman, Sachs & Co. is hereby appointed Remarketing Agent under the Supplement. Both shall accept their duties, respectively, by execution of a written acceptance thereof.

5. The Swap Agreements attached to the Supplement as Exhibit __ are hereby approved.

5. Proceeds of the Series 2001-C Bonds, shall be applied as follows: [*To come*]

6. This Order shall take effect immediately.

J. Edward Hannan
Finance Director
City of Detroit

May 31, 2001

[The Variable Rate Supplement is included under Item 8(a)]

Exhibit 6

Variable Rate Demand Bonds Supplement and Agreement

among

City of Detroit,
as Issuer

U. S Bank Trust National Association,
as Trustee and Transfer Agent,

and

U. S Bank Trust National Association,
as Tender Agent

Dated as of May 31, 2001

with respect to

City of Detroit
\$000,000,000

Water Supply System Revenue Refunding Second Lien Bonds
(Variable Rate Demand), Series 2001-C

Variable Rate Demand Bonds Supplement and Agreement (the *Agreement*), dated as of May 31, 2001, among the **City of Detroit, Michigan**, as Issuer, **U. S. Bank Trust National Association**, a national banking association with its designated corporate trust office located at Suite 740, Buhl Building, 535 Griswold, Detroit, Michigan 48226, (the *Trustee, Paying Agent and Transfer Agent*), under a Bond Authorizing Resolution, adopted January 25, 2001 and amended April 25, 2001, by the Issuer (the *Bond Authorizing Resolution*), and U.S. Bank Trust National Association, a national banking association, with its designated office located at 100 Wall Street, in New York, New York, 10005 as Tender Agent and Paying Agent thereunder (the *Tender Agent*)

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Intending to be legally bound hereby, the parties hereto agree as follows for the benefit of each Provider of a Financial Facility and the respective holders of the Bonds:

Article I Definitions

Section 1.01. Definitions.

(a) Unless the context clearly otherwise requires, (i) capitalized terms not defined herein and defined in the Bond Authorizing Resolution are used herein as therein defined and (ii) the following terms have the following respective meanings:

Account means any account established by *Section 7.01*..

Alternative Rate means the BMA Municipal Swap Index; *and if* the BMA Municipal Swap Index ceases to be published, *then* a new third-party index shall be selected in good faith by the City that has the described composition and methodology of the BMA Municipal Swap Index to the extent there is such an index that is readily available to the Remarketing Agent.

Authorized Denominations means,

- (1) for Modal Bonds in a Daily Mode or a Weekly Mode, \$100,000 and any multiple of \$5,000 in excess thereof, and
- (2) for Modal Bonds in the Fixed Rate Mode, \$5,000 and any multiple thereof.

BMA Municipal Swap Index means the index based upon the weekly interest rates of tax-exempt variable rate issues included in a database maintained by Municipal Market Data, Boston Massachusetts, a Thompson Financial Services Company (or its successor), which meet specific criteria established by The Bond Market Association.

Bond Counsel means Lewis & Munday, A Professional Corporation, bond counsel to the City with respect to the Bonds, or such other firm or firms of nationally recognized standing in the field of tax-exempt municipal bonds as may be appointed by the City in lieu thereof.

Bond Insurance means the municipal bond new issue insurance policy issued by the Bond Insurer that guarantees payment of principal of and interest on the Bonds.

Bond Insurer means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

Bonds means the Water Supply System Revenue Refunding Second Lien Bonds (Variable Rate Demand), Series 2001-C issued pursuant to the Ordinances (defined in the Sale Order), Bond Authorizing Resolution, the Sale Order for the Bonds and this Agreement. When "Bonds" is modified by the name

of a Mode, then, in that particular context, *Bonds* only refers to Bonds in that Mode.

Bond Authorizing Resolution means the instrument defined as the "Bond Authorizing Resolution" in the first paragraph of this Agreement, as such instrument may be amended in accordance with the provisions thereof.

Business Day means a day on which the Trustee, any Paying Agent, the Tender Agent, the Remarketing Agent, each Provider and banks or trust companies in New York, New York, are not authorized or required to remain closed and on which the New York Stock Exchange is not closed.

Closing means the delivery of the Bonds to, and payment for the Bonds by, the Underwriters and the other actions in connection therewith.

Closing Date means the date on which the Closing occurs.

Conforming Financial Facility means a Financial Facility conforming to the requirements of Section 8.03.

Credit Facility means any letter of credit, line of credit, purchase agreement, or other financial arrangement intended to protect Holders from loss arising from a failure of the City to timely pay principal (and premium, if any) of and interest on the Bonds *other* than Bond Insurance.

Daily Mode means the Mode that has all of the attributes provided by this Agreement for Modal Bonds bearing interest at a Daily Rate, including, without limitation, Day Count Convention, Rate Change Date, manner of determining interest rate and Rate Determination Date.

Daily Rate when used as a noun means a rate of interest determined as provided in Section 3.02 for the Daily Mode.

Daily Rate Bond means any Modal Bond in the Daily Mode.

Day Count Convention means:

- (i) for any Short-Term Bond, the actual number of days elapsed in the then current calendar year in a year of 365 or 366 days, whichever is applicable; and
- (ii) for any Fixed Rate Bond, 30-day months in a 360-day year.

Drawn means the means the making of funds available to the Tender Agent under a Financial Facility, whether as a purchase of Bonds under a standby bond purchase agreement, a drawing under a letter of credit or otherwise. Correlatives of *drawn* have correlative meanings.

Electronic Means means (i) any means of electronically communicating by written word, such as, without limitation, telecopier, telegraph, telex, facsimile transmission, e-mail transmission (but only if e-mail transmission is specifically authorized by the recipient) and (ii) any means of electronically communicating by spoken word, such as, without limitation, telephone, *so long as*, the Electronic Means is acceptable to the recipient and the communication by Electronic Means is promptly confirmed by a manually signed writing or otherwise authenticated to the satisfaction of the recipient.

Expiry Date means the date on which a Financial Facility expires by its terms *and not* by reason of any Termination Event.

Favorable Bond Counsel's Opinion means, with respect to any action the occurrence of which requires such an opinion of Bond Counsel, an opinion of Bond Counsel to the effect that (i) such action is authorized or permitted by this Agreement, the Bond Authorizing Resolution, the Ordinances and the Act, and (ii) such action will not adversely affect the exemption of the interest on the Bonds from federal and state income taxation (subject to customary exceptions).

Financial Facility means any Bond Insurance, Credit Facility, Liquidity Facility or a combined Credit and Liquidity Facility which is a "Credit Support Instrument" for purposes of the Ordinances.

Financial Facility Agreement means an agreement with the City or the Trustee and a Provider providing for a Financial Facility.

Fixed Rate means a rate of interest determined as provided in Section 3.02 for the Fixed Rate Mode.

Fixed Rate Bond means any Modal Bond in the Fixed Rate Mode.

Fixed Rate Mode means the Mode that has all of the attributes provided by this Agreement for Modal Bonds bearing interest at a Fixed Rate, including, without limitation, Day Count Convention, Interest Adjustment Date, manner of determining interest rate and Rate Determination Date.

Fund means any fund established by *Section 7.01*.

Holder, Bondholder and Holder of Bonds each mean the Person in whose name a Bond is registered in the Registry.

Initial Mode means the Mode identified in *Section 2.02* as the Mode in which the Bonds will be initially issued.

Interest Account means the account by that name established by *Section 7.01*.

Interest Adjustment Date means

- (i) for a Daily Rate Bond, each Rate Determination Date for such Daily Rate Bond;
- (ii) for a Weekly Rate Bond, each Wednesday and each Mode Change Date; and
- (iii) for a Fixed Rate Bond, the Mode Change Date for such Fixed Rate Bond.

Interest Payment Date means each date on which interest is to be paid and is:

- (i) for a Daily Rate Bond, the first Business Day of each calendar month;
- (ii) for a Weekly Rate Bond, the first Business Day of each calendar month;
- (iii) for a Fixed Rate Bond, each Stated Interest Payment Date occurring after the Mode Change Date for such Fixed Rate Bond.

Last Put Termination Date means the date on which a Financial Facility terminates by reason of a Last Put Termination Event.

Last Put Termination Event means a Termination Event occurring under a Financial Facility that provides for a period during which the affected Modal Bonds may be called for tender.

Last Put Termination Notice means a notice from a Provider stating that it is terminating its Financial Facility by reason of a Last Put Termination Event.

Liquidity Facility means any letter of credit, line of credit, purchase agreement, or other financial arrangement intended to provide funds for the purchase of certain Bonds in the event of a failure of the remarketing thereof but does not include any protection provided by a Credit Facility. The Liquidity Facility in effect on the Closing Date is the Standby Bond Purchase Agreement between the Trustee and FGIC Securities Purchase, Inc., dated as of May 31, 2001.

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Liquidity Facility Bond means any Modal Bond that is the subject of a Liquidity Facility.

Liquidity Facility Requirements means the requirements for a certain Substitute Financial Facility in Section 8.04 specified by the Bond Insurer as part of the initial issuance of the Bonds and attached to this Agreement as Exhibit A.

Maximum Rate means the *lesser* of the Stated Maximum Rate and the maximum interest rate per annum permitted by applicable law.

Modal Bonds means, as of any particular date, such of the Bonds that are not Provider Bonds.

Mode means any of the methods of determining an interest rate for the Bonds permitted by this Agreement.

Mode Change Date means any date on which the Bonds are converted, or are proposed to be converted, from Daily Rate Mode to Weekly Rate Mode or from Weekly Rate Mode to Daily Rate Mode or to Fixed Rate Mode designated in the manner set forth in this Supplement.

Mode Change Notice means the notice from the City to the other Notice Parties of the Board's intention to change a Mode.

Notice Address means (i) for any Notice Party, the address that it specifies to the other Notice Parties and any other Person as the address to which notices shall be addressed and (ii) for any other Person, the address that it specifies as the address to which notices shall be addressed as set forth in Section 11.05 of this Agreement.

Notice Parties means the City, the Bond Insurer, the Provider, the Trustee, the Tender Agent and the Remarketing Agent.

Ordinances means the ordinances of the City adopted from time to time providing for the issuance of Bonds under Act 94 for the benefit of the System on a senior lien, second lien or junior lien basis.

Outstanding, outstanding, Outstanding Bonds and Bonds outstanding mean, as of any date, all Bonds delivered under the Bond Resolution, *except*

(i) Bonds theretofore paid or redeemed or acquired by the Board and surrendered to the Trustee for cancellation,

(ii) Bonds that have matured or have been duly called for redemption and for the payment or redemption of which amounts, together with any unpaid interest are held by the Trustee or the Paying Agent for the payment thereof;

(iii) Bonds that have been duly called for mandatory tender and for the purchase of which amounts, together with any unpaid interest are held by the Tender Agent for the payment thereof;

(vi) Bonds paid or deemed paid in accordance with Bond Resolution; and

(v) Bonds in exchange for or replacement of which other Bonds have been authenticated and delivered pursuant to the Bond Authorizing Resolution;

provided that, any Bond paid with funds provided pursuant to a Financial Facility shall remain Outstanding for purposes of the subrogation rights of the Provider providing such funds *unless and until* such Provider is paid in accordance with such Financial Facility.

Paying Agent means the Tender Agent acting as such pursuant to its appointment in this Agreement and the Trustee.

Period means a period of time determined in accordance with this Agreement during which a Mode is not permitted to be changed for Bonds in that Mode.

Person means any natural person, firm, association, corporation, trust, partnership, joint venture, joint-stock company, municipal corporation, public body or other entity, however organized.

Predecessor Financial Facility means the Financial Facility for which another Financial Facility is substituted or is to be substituted as provided in Section 8.04.

Principal Account means the account by that name established by Section 7.01.

Principal Installment for any Fiscal Year means, as of any date of computation and with respect to any Outstanding Bonds of a series, the sum of:

(i) the principal amount of such Bonds maturing in such Year other than Term Bonds; and

(ii) the amount of any Sinking Fund Installments coming due in such Debt Service Year, including any Sinking Fund Installment due at the maturity of any Term Bond of such series in such Debt Service Year less the amounts credited to such Sinking Fund Installments as the result of partial redemptions of any Term Bonds for which such Sinking Fund Installments were established or purchase of any such Term Bonds.

Provider means the Person obligated under a Financial Facility to provide its own funds to be used to pay Holders upon the occurrence of certain events specified therein. The City is not a Provider.

Provider Bonds means Bonds purchased or held by or on behalf of the Provider pursuant to a draw under a Financial Facility.

Provider Rate means the rate of interest per annum on the Provider Bonds while held for or on behalf of the Provider as defined in the Financial Facility.

Purchase Date means the date on which Tender Bonds are to be purchased pursuant to the terms hereof.

Purchase Price means an amount equal to 100% of the principal amount of the Tender Bonds to be purchased on a Purchase Date plus interest accrued to such Purchase Date.

Rate Change Date means (a) for each Rate Period during any Daily Mode, each Business Day, (b) for each Rate Period during any Weekly Mode, Wednesday, and (c) each Mode Change Date.

Rate Determination Date means (a) for each Rate Period during any Daily Mode, each Business Day, (b) for each Rate Period during any Weekly Mode, Tuesday, or if such day is not a Business Day, then the immediately preceding Business Day, and (c) each Mode Change Date.

Rate Period means, with respect to each Bond, each period commencing on a Rate Change Date for such Bond to and including the day immediately preceding the immediately succeeding Rate Change Date for such Bond (or the Maturity Date or date of redemption of such Bonds), during which period such Bond bears interest at one specific interest rate.

Rating Agency means, on any date, each nationally recognized statistical rating organization (as such term is used in Rule 15c3-1 of the Securities and Exchange Commission) that has a rating in effect on the Bonds on such date.

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Rating Confirmation means a writing from each Rating Agency stating that the rating on the Bonds will not be reduced or withdrawn (other than a withdrawal of a short term rating upon a change to a Fixed Rate Mode) as a result of the action proposed to be taken.

Record Date means:

- (i) for a Short-Term Bond, the day (whether or not a Business Day) immediately before each Interest Payment Date for such Bond; and
- (ii) for a Fixed Rate Bond, the 15th day (whether or not a Business Day) of the month immediately before each Interest Payment Date for such Bond.

Redemption Date means the date fixed for redemption of Bonds subject to redemption.

Redemption Price means an amount equal to the principal of and premium, if any, on the Bonds and interest to be paid on the Bond to the Redemption Date.

Remarketing Agent means Goldman, Sachs & Co., until a successor Remarketing Agent becomes such pursuant to applicable provisions hereof and thereafter, such successor Remarketing Agent.

Remarketing Agreement means, as of any date, an agreement then in effect between the City and the Remarketing Agent providing for the remarketing of Bonds. The Remarketing Agreement in effect on the Closing Date is between the City and Goldman, Sachs & Co.

Remarketing Fund means the fund by that name created in *Section 7.01*.

Reimbursement Obligation means an obligation incurred under a Credit Facility or a Liquidity Facility to repay amounts disbursed thereunder to pay, or make payments in respect of, Bonds. Commitment or facility fees under a Financial Facility are not Reimbursement Obligations.

Securities Depository means The Depository Trust Company until the City designates a new securities depository by notice to each of the other Notice Parties, and thereafter, such new securities depository.

Short-Term Bond means a Modal Bond in a Short-Term Mode.

Short-Term Mode means the Daily Mode or Weekly Mode.

Stated Interest Payment Date means each July 1 and January 1.

Stated Maximum Rate means the lesser of (i) eighteen percent (18%) per annum and (ii) with respect to the Provider Bonds, the Provider Rate while the Financial Facility is effective.

Substitute Financial Facility means a Financial Facility meeting the requirements of Section 8.04. Any Substitute Liquidity Facility shall satisfy the requirements of the Liquidity Facility Requirements.

Swap Provider Guidelines means the guidelines specified by the Bond Insurer as part of the initial issuance of the Bonds and attached to this Agreement as Exhibit C.

Tender Agent means the Person named as *Tender Agent* in the first paragraph of this instrument until a successor Tender Agent becomes such pursuant to applicable provisions hereof and thereafter, such successor Tender Agent.

Tender Bonds means, as of any Purchase Date, all Modal Bonds except Provider Bonds:

- (i) subject to tender on such Purchase Date by reason of the Holders thereof having given notice as provided herein;
- (ii) subject to mandatory tender on such Purchase Date without notice pursuant hereto; and
- (iii) subject to mandatory tender on such Purchase Date by reason of notice having been given as required hereby.

Term Bond means any maturity of the Bond for which mandatory redemption requirement have been established in Exhibit 2.02(c) of this Agreement.

Termination Date means the date on which a Financial Facility terminates by reason of a Termination Event.

Termination Event means any event listed in a Financial Facility Agreement that permits the Provider to terminate its Financial Facility and includes any non-reinstatement of interest drawn under such Financial Facility.

Termination Notice means a notice from a Provider stating that it is terminating its Financial Facility by reason of a Termination Event or that it is not reinstating interest drawn under such Financial Facility.

Transfer Agent means the Person which is appointed as the initial registrar and transfer agent in the Bond Authorizing Resolution and the Sale Order until a successor Transfer Agent becomes such pursuant to the applicable provisions of the Bond Authorizing Resolution and Sale Order.

Weekly Mode means the Mode that has all of the attributes provided by this Agreement for Modal Bonds bearing interest at a Weekly Rate, including, without limitation, Day Count Convention, Rate Change Date, manner of determining interest rate and Rate Determination Date.

Weekly Rate means a rate of interest determined as provided in Section 3.02 for the Weekly Mode.

Weekly Rate Bond means any Modal Bond in the Weekly Mode.

Section 1.02 Interpretation.

(1) Words of the masculine gender include correlative words of the feminine and neuter genders.

(2) Unless the context otherwise indicates, words importing the singular include the plural and vice versa.

(3) Articles, Sections and Exhibits referred to by number mean the corresponding Articles, Sections and Exhibits of this Agreement.

(4) The terms *hereby*, *hereof*, *hereto*, *herein*, *hereunder* and any similar terms used in this Agreement refer to this Agreement.

Section 1.03. Time.

All time expressed in this Agreement is the time in New York City on the date the particular action is to be taken *unless* otherwise provided.

Article II The Bonds

Section 2.01 Authorization, Designation.

The Bonds are hereby authorized to be issued and shall be designated *Water Supply System Revenue Refunding Second Lien Bonds (Variable Rate Demand), Series 2001-C* and shall be in the form prescribed by *Exhibit 2.01*.

Section 2.02 Terms of the Bonds.

Bonds are authorized to be initially issued in the aggregate principal amount of \$192,290,000.

The date, the maturity date or dates and the interest payment dates of Modal Bonds are as follows:

Upon initial issuance, Modal Bonds shall be dated the Closing Date; thereafter, Modal Bonds shall be dated the date of authentication,

Modal Bonds shall mature or have sinking fund installments which are paid on July 1 in each year set forth in *Exhibit 2.02(b)* (each of which is a Principal Installment Date) in the respective principal amount set forth opposite each such year *unless* changed pursuant to *Section 2.03*, and

the interest payment dates for Modal Bonds are as defined in the definition of "Interest Payment Dates".

The Bonds shall be initially issued as Modal Bonds:

(1) as a single Modal Bond for each maturity fully registered in the name of the Securities Depository or its nominee;

(2) in the Weekly Mode (Initial Mode) and

(3) initially bearing interest at the rate for such Mode set forth in the Bond; thereafter, interest rates to be borne by Modal Bonds shall be determined in accordance with *Article III*.

(d) Modal Bonds shall be initially issued in book-entry only form registered with The Depository Trust Company ("DTC") and shall be numbered consecutively from "1" and prefixed with the letter "R" and any Modal Bond issued in respect of a Tender Bond not tendered to the Tender Agent pursuant to *Section 6.11* shall be additionally identified as a replacement bond to distinguish it from all other Modal Bonds and

(e) The Modal Bonds are subject to redemption prior to maturity as provided in *Article V*.

(f) The Modal Bonds identified in *Exhibit 2.02(c)* are Term Bonds and are subject to redemption from Sinking Fund Installments as set forth therein *unless* changed pursuant to *Section 2.03*.

(g) The principal and Redemption Price of Bonds bearing interest at a Daily Rate or a Weekly Rate will otherwise be payable at the principal office of the Tender Agent in New York, New York, upon presentation and surrender of such Bonds. Any payment of the Purchase Price of a Modal Bond (described in Article VI under the optional and mandatory tender provisions)

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will be payable at the designated corporate trust office of the Tender Agent (or at such other office as may be designated by the Tender Agent), upon presentation and surrender of such tendered Bond.

Fixed Rate Bonds are payable as to principal (premium, if any) and interest at the designated corporate trust office of the Trustee.

The terms of Provider Bonds shall be as provided in *Section 7.08*.

The principal, Redemption Price and purchase price of, premium, if any, and interest on the Bonds will be payable in any coin or currency of the United States of America which, at the respective dates of payment of such Bonds, is legal tender for the payment of public and private debts. So long as the Bonds remain in book-entry only form, payments of the principal, Redemption Price and Purchase Price (with respect to Tender Bonds will be made by the Trustee or Tender Agent to DTC for subsequent credit to direct participants and disbursement to beneficial owners through DTC.

Section 2.03. Adjustment of Amortization, Sinking Fund Installments and Redemption.

(a) Any Mode Change Notice delivered to change all of the Modal Bonds to the Fixed Rate Mode may provide for adjustment of the amortization of such Modal Bonds by:

(1) adding, deleting or otherwise modifying maturity dates so long as any additional maturity date is a July 1 no later than July 1 of the year of the original maturity date of the Bonds;

(2) adding, deleting or otherwise modifying the amount of principal maturing on any maturity date *so long as* the entire principal amount authorized hereunder is amortized no later than the last year of the original maturity date of the Bonds;

(3) adding or deleting any Term Bonds and adding, deleting or otherwise modifying Sinking Fund Installments for any Term Bonds even though not then Fixed Rate Bonds and adding Sinking Fund Installments for any such Modal Bonds therein designated as Term Bonds; and

(4) adding or deleting or otherwise modifying the terms hereof for optional redemption of Fixed Rate Bonds and the Redemption Prices thereof.

(b) The Modal Bonds described in such notice shall be subject to the amortization described therein and subject to any optional redemption described therein *when, but only when*, the change to the Fixed Rate Mode contemplated by such notice becomes effective *and only if*:

(1) Such Modal Bonds do not exceed any limitation on term contained in the Act.

(2) Such Modal Bonds could be issued as Parity Obligations under the Bond Authorizing Resolution (treating, for such purpose, the Modal Bonds with the amortization to be adjusted as no longer outstanding to the extent of the adjustment).

(3) The Tender Agent has received and then holds a Favorable Bond Counsel's Opinion with respect to the matters permitted by this Section and included in such Mode Change Notice.

Section 2.04. Interest.

(a) Each Bond in a particular Mode shall bear interest from the Closing Date or from the most recent Interest Payment Date on which interest has been paid or duly provided for through the day before the Interest Payment Date, and such interest shall be:

(1) payable at a rate determined on the Rate Determination Date for such Mode as provided in *Article III* and effective as of the immediately following Rate Change Date for such Mode and effective until (and excluding) the next Rate Change Date *or if* such Mode includes only one Rate Change Date *then* the day before such Mode is changed;

(2) calculated at the Day Count Convention for such Mode for the period commencing on the Rate Change Date for such Mode and ending on (and including) the day before the next Rate Change Date *or if* such Mode includes only one Rate Change Date *then* the day before such Mode is changed; and

(3) payable on the Interest Payment Date for such Mode to the Holder of such Modal Bond as of the Record Date for such Mode *provided that*:

- (i) *if* any such Interest Payment Date occurs after the stated maturity of the related Modal Bond *then* interest shall be paid on such stated maturity; and
- (ii) *if* interest on any Modal Bond shall be in default, *then* such interest shall be payable on the special interest payment date set for such purpose, if any.

Section 2.05. Appointment of Paying Agent and Registrar.

The Tender Agent shall serve as a Paying Agent and shall also serve as the Transfer Agent for Modal Bonds in any Mode other than the Fixed Rate Mode. The Trustee shall serve as Paying Agent and Transfer Agent for all Fixed Rate Bonds.

Section 2.06. Payment of Interest.

(a) Interest on Fixed Rate Bonds shall be paid by the Trustee as provided herein and in the Bond Authorizing Resolution.

(b) Interest due on Modal Bonds other than Fixed Rate Bonds on an Interest Payment Date shall be paid by the Tender Agent acting as Paying Agent or the Trustee acting as Paying Agent as follows:

(1) during the Daily Mode or the Weekly Mode by wire transfer of immediately available funds to the account specified by each Holder in writing to the Tender Agent. Such writing shall remain in effect until revoked or revised by such Holder in a writing delivered to the Tender Agent.

(2) during the Fixed Rate Mode by check mailed by the Trustee acting as Paying Agent on the applicable Interest Payment Date to each Holder appearing on the Registry as of such Record Date or at the option of any Holder of at least \$1,000,000 aggregate principal amount of Fixed Rate Bonds by wire transfer of immediately available funds in the same manner as Holders of Daily Rate Bonds or Weekly Rate Bonds upon such Holder delivering to the Trustee acting as Paying Agent (rather than the Tender Agent) the writing required by *paragraph (1)*, above.

Section 2.07. Authentication after Initial Issuance.

(a) After initial issuance, Bonds shall be authenticated as follows:

(1) All Daily Rate Bonds and Weekly Rate Bonds issued in transfer, exchange, redemption or purchase shall be authenticated by the Tender Agent pursuant to the power granted in Section 2.05.

(2) All Fixed Rate Bonds issued in transfer, exchange, redemption or purchase shall be authenticated by the Trustee.

(3) All Provider Bonds in certificated form shall be authenticated by the Tender Agent.

(b) The Tender Agent shall have power to act on behalf of the Trustee and subject to its direction in the authentication and delivery of Bonds in connection with transfers and exchanges under the Bond Authorizing Resolution as fully to all intents and purposes as though the authentication had been expressly authorized by the Bond Authorizing Resolution.

Section 2.08. New Certificates.

Modal Bonds in certificated form and reflecting each change in a Mode shall be executed by the City, authenticated by the Tender Agent and delivered on the Mode Change Date in exchange for the Modal Bonds in their previous certificated form:

(1) if and when required by the Securities Depository and

(2) whenever Modal Bonds are held in certificated form by a Holder other than the Securities Depository.

Article III
Interest Rate Determinations

Section 3.01. Manner of Determining Interest Rates; Interest Rate.

(a) The interest rate for all Bonds, commencing with the first Rate Determination Date after the Closing Date, shall be determined by the Remarketing Agent on each Rate Determination Date as provided in this Article.

(b) If any interest rate determined as provided in this Article exceeds the Maximum Rate, then the interest rate shall be the Maximum Rate.

(c) The determination of any interest rate pursuant to this Article shall be conclusive.

Section 3.02. Interest Rate Determinations.

(a) The interest rate for all Bonds in each Mode shall be determined by the Remarketing Agent on the Rate Determination Date for such Mode as the interest rate that in the judgment of the Remarketing Agent would allow such Modal Bonds to be sold at par plus accrued interest, under prevailing market conditions on such Rate Determination Date.

(1) For each Rate Period during the Daily Mode, the Remarketing Agent will determine, and is required to give notice (by electronic means or by facsimile) to the Tender Agent of the Daily Rate no later than 10:00 a.m. on each Rate Determination Date. In the event that the Daily Rate is not determined by the Remarketing Agent as provided herein, the rate of interest borne by the Bonds bearing interest at the Daily Rate will be equal to the Alternative Rate until the Remarketing Agent next determines the Daily Rate as required herein. The Daily Rate for any day during the Daily Mode which is not a Business Day shall be the Daily Rate established on the immediately preceding Rate Determination Date.

(2) For each Rate Period during the Weekly Mode, the Remarketing Agent will determine the Weekly Rate for the period commencing on the immediately succeeding Wednesday or the Mode Change Date and ending on the next succeeding Tuesday no later than 4:00 p.m. New York time on each Rate Determination Date. In the event that the Weekly Rate is not determined by the Remarketing Agent on the Rate Determination Date, the rate of interest borne by the Bonds bearing interest at a Weekly Rate will be equal to the Alternative Rate until the Remarketing Agent next determines the Weekly Rate as required herein.

(3) The Remarketing Agent shall determine the Fixed Rate on the Rate Determination Date for such Fixed Rate Bond.

(b) Upon making each interest rate determination pursuant to this Section, the Remarketing Agent shall give notice as soon as possible and not later than the end of the

Business Day to the Finance Director, the Trustee and the Tender Agent of such interest rate determination by electronic means or by facsimile.

Article IV Modes and Periods

Section 4.01. Modes.

The Finance Director may designate a different Mode for all Bonds during a Daily Mode or a Weekly Mode pursuant to a Mode Change Notice, on any Interest Payment Date, but such change shall become effective only as provided in *Section 4.09*. All Bonds must bear interest in the same Mode.

Section 4.02 Duration of Modes.

(a) Once a Mode is in effect for a Modal Bond, that Mode continues in effect until another Mode takes effect.

(b) The Mode of a Fixed Rate Bond cannot be changed.

Section 4.03. Rule 15c2-12 Compliance.

If a change in Mode will make a Bond subject to Rule 15c2-12 promulgated under the Securities Act of 1934, as amended, and the City has not already done so, the City shall enter into a continuing disclosure undertaking with the Trustee satisfying the requirements of such Rule.

Section 4.04. Effectiveness of Modes.

The following rules govern the effectiveness of Modes:

- (1) The Initial Mode is effective on and as of the Closing Date without any further act.
- (2) The Mode of a Daily Rate Bond or a Weekly Rate Bond may be changed on any Interest Payment Date.
- (3) Any Mode shall be effective for all Modal Bonds.
- (4) The Mode of a Fixed Rate Bond cannot be changed.
- (5) Other than the Initial Mode, no Mode shall become effective *unless* the conditions precedent to the change to such Mode are met on the Mode Change Date.
- (6) If the conditions precedent required to effect a Mode change in Section 4.05 are not satisfied by the Mode Change Date, the Modal Bond will continue to be subject to mandatory tender and will continue to bear interest in the Mode in effect prior to the proposed Mode Change Date.

Section 4.05. Conditions Precedent to Mode Change.

(a) It is a condition precedent to a Mode change for any Modal Bond that there shall be delivered to the Tender Agent, and the Tender Agent shall hold on the Mode Change Date:

(1) a Favorable Bond Counsel's Opinion, addressed to the Notice Parties;

(2) *either* (i) moneys sufficient to pay the Purchase Price of all affected Modal Bonds plus interest accrued to the Mode Change Date, from proceeds of the remarketing of such Modal Bonds so as to be available for such payment *or* (ii) a Liquidity Facility with sufficient capacity to permit such amount to be Drawn thereunder and under which no condition exists that would prohibit such draw; and

(b) It is a condition precedent to a Mode change for any Modal Bond required by *Section 8.01* to be the subject of either Credit Enhancement or a Liquidity Facility, or both Credit Enhancement and a Liquidity Facility, that there shall be delivered to the Tender Agent, and the Tender Agent shall hold on the Mode Change Date every required Conforming Financial Facility for such Modal Bonds determined as if the Modal change to be made had become effective.

(c) The Tender Agent is entitled to rely on a certificate of the Finance Director that the items delivered to it pursuant to this Section conform to the above requirements.

Section 4.06. Election of Mode Change; How Effected; Irrevocability.

(a) The Finance Director may elect at any time and from time to time to change any Mode to any other Mode (other than a Mode change from the Fixed Rate), *but* no such Mode shall become effective *except* as provided in *Section 4.09*. (408?)

(b) In order to evidence the election of the Finance Director, and for his/her election to be effective, the Finance Director shall deliver to the Tender Agent, with copies to each of the other Notice Parties, not later than, fifteen (15) days prior to the Mode Change Date, the minimum number of days required by *Section 6.02* for notices given in connection with mandatory tenders *plus* 15 days (or such fewer days in advance of such minimum number as may be acceptable to the other Notice Parties):

(i) a Mode Change Notice signed by the Finance Director and

(ii) the items required by *Section 4.05* to be held by the Tender Agent on the Mode Change Date *except* that:

(A) any otherwise required Conforming Financial Facility is not required *if* the current Financial Facility will be a Conforming Financial Facility after giving effect to the Mode change;

(B) *if* any Conforming Financial Facility is required, the Finance Director may satisfy the requirement with a commitment of a bank or other financial institution to provide such Conforming Financial Facility not later than the Mode Change Date, and, in such situation, the Rating Confirmation may be indicative or contingent; and

(C) moneys in respect of the Purchase Price are not required.

(c) The election shall be effective upon receipt by the Tender Agent of the foregoing and shall be irrevocable.

Section 4.07. Mode Change Notice.

The notice of the Finance Director to elect a Mode change shall set forth:

(1) the new Mode;

(2) the Mode Change Date, which shall comply with *Section 4.04(2)*;

(3) *if* the new Mode is the Fixed Rate Mode, such matters that may be included pursuant to *Section 2.03* as the Finance Director may elect to include.

(4) the amount, each separately stated, of principal (and premium, if any) and interest required to be covered pursuant to *Section 8.02*, determined as if the Mode described in such notice were in effect and taking into account any scheduled maturities and Sinking Fund Installments contained in such notice, and calculated in sufficient detail to permit the Tender Agent to verify the arithmetical accuracy thereof;

(5) a statement that:

(i) each Financial Facility required by *Section 8.01* and then held by the Tender Agent is a Conforming Financial Facility with respect to the new Mode *or*

(ii) accompanying the notice is the commitment of a bank or other financial institution to issue a required Financial Facility that will:

(A) be a Conforming Financial Facility and

(B) be effective as of the Mode Change Date specified in the notice; and

(6) such other matters deemed necessary or appropriate by the Finance Director.

Section 4.08. Notice to Modal Bondholders

(a) Whenever the Tender Agent receives a Mode Change Notice, the Tender Agent shall give the notice of mandatory tender required by *Section 6.02* to the Holders of all of the Modal Bonds at least 15 days prior to the Mode Change Date. The Tender Agent will give written notice of such election by the City to the Holders of the Modal Bonds, which notice shall contain the information required by *Section 6.04*.

(b) Such notice shall be given in advance of the Mode Change Date specified in such Mode Change Notice by at least the minimum number of days required by *Section 6.02*.

(c) The City will evidence such designation of a subsequent Mode and Mode Change Date for the Bonds by giving written notice to the Trustee, the Tender Agent, the Remarketing Agent, the Provider, the Insurer and each Rating Agency then maintaining a rating on the Bonds, specifying the Mode in which such Bonds will operate and the Mode Change Date. Upon receipt of such notice from the City, the Tender Agent, at least 15 days prior to each Mode Change Date, will give notice to each Holder of Bonds of the mandatory tender for purchase of the Bonds on the Mode Change Date.

Article V Redemption of Bonds

Section 5.01. Optional Redemption – Short-Term Bonds.

Bonds in a Daily Mode or a Weekly Mode will be subject to redemption prior to their maturity date at the option of the Issuer, in whole on any Business Day or in part (and, if in part, in an Authorized Denomination) on any Interest Payment Date during such Daily Mode or Weekly Mode at a Redemption Price equal to 100 percent of the principal amount of such Bonds, plus accrued interest, if any, to the redemption Date.

Section 5.02. Optional Redemption – Fixed Rate Bonds.

Unless changed pursuant to *Section 2.03*, Fixed Rate Bonds are subject to redemption upon notice given as required in the Bond Authorizing Resolution in whole on any date or in part on any Interest Payment Date at the option of the City at the Redemption Prices set forth below (expressed as a percentage of the principal amount thereof to be redeemed) for the applicable remaining term and anniversary date of the Mode Change Date, plus interest accrued to the Redemption Date.

Remaining Term	Interest Payment Date Anniversary after Mode Change Date	Redemption Price
More than 15 years	10 th	101%
	11 th	100½
	12 and thereafter	100
Remaining Term	Anniversary of Interest Payment Date Following Mode Change Date	Redemption Price
More than 10 years but not more than 15 years	7 th	101%
	8 th	100½
	9 th and thereafter	100
Remaining Term	Anniversary of Interest Payment Date Following Mode Change Date	Redemption Price
More than 5 years but not more than 10 years	3 rd	101%
	4 th	100½
	5 th and thereafter	100

Remaining Term	Anniversary of Interest Payment Date Following Mode Change Date	Redemption Price
5 years or fewer years	2 nd	100%

Section 5.03. Mandatory Redemption – Sinking Fund Installments.

The Bonds are subject to mandatory sinking fund redemption prior to maturity in part, by lot, at a Redemption Price equal to 100 percent of the principal amount of such Bonds to be redeemed, without premium, plus accrued interest to the date of redemption, on July 1 in each of the years and in the amounts set forth in the schedule included in Exhibit 2.02(b) for the mandatory sinking fund redemption of the Bonds.

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Section 5.04 General Provisions Regarding Redemption of Bonds

(a) *Notice of Redemption.* Whenever Bonds are to be redeemed, the Trustee will give notice of the redemption of the Bonds, which notice will specify, among other things, the Redemption Date, the Redemption Price, the place and manner of payment and that from the redemption date interest will cease to accrue on the Bonds which are the subject of such notice.

(i) the notice of redemption of Bonds pursuant to Section 5.01 or Section 5.02 shall state that such notice is conditional and that the redemption of such Bonds is conditioned upon the availability of money to pay the Redemption Price; provided that such money shall not constitute "property of the City" for the purposes of Section 547 of the United States Bankruptcy Code if and is the extent that such Section is applicable to entities such as the City under the United States Bankruptcy Code.

(ii) Notice of the redemption of Bonds will be given by first class mail, postage prepaid, not less than 30 days or more than 60 days prior to the Redemption Date, to the registered owners of the Bonds to be redeemed. So long as all Bonds are in book-entry only form with DTC, redemption notices shall be sent to DTC only. Failure to give notice to a particular Holder or a defect in the notice will not affect the validity of any proceedings for redemption as to any other Bond.

(b) *Selection of Bonds to be Redeemed.* The Bonds to be called must be in Authorized Denominations. In all cases, Provider Bonds will be selected for redemption before other Bonds. If less than all of the Bonds are called for redemption the particular Bonds (or portions thereof) to be redeemed will be selected by lot in such manner as the Trustee may determine among such Bonds. So long as all Bonds are in book-entry only form with DTC, DTC shall select the Bonds to be redeemed. If a Bond is redeemed in part, new Bonds representing the unredeemed balance shall be issued to the Holder thereof without charge therefor.

(c) *Effect of Redemption.* Interest will not accrue after the redemption date on any Bond called for redemption if notice has been given and if sufficient moneys have been deposited with the Trustee to redeem such Bonds.

Article VI Tender and Purchase

Section 6.01. Tender at Option of Holder.

(a) *Purchase on Demand of Holder While Bonds Bear Interest at the Daily Rate.* While the Daily Rate Bonds are in the Daily Mode, each Daily Rate Bond (or portion of such Daily Rate Bond in an Authorized Denomination) will be purchased on any Business Date upon the demand of the Holder of such Daily Rate Bond, at the Purchase Price to such Purchase

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Date, upon irrevocable telephonic or spoken or written notice (which telephonic or other spoken notice will be confirmed in writing, and which written notice may be given by telecopy or other Electronic Means) to the Tender Agent. Such notice must be received not later than 11:00 a.m. (or such other time as may be agreed to by the Provider, the Tender Agent and the Remarketing Agent), provided, however, such other later time is subject to Rating Confirmation before such later time is implemented, New York time, on a Business Day in order to be effective on that date. Any notice received after such time will be deemed given on the next succeeding Business Day. Such notice must specify (i) the principal amount and number of such Daily Rate Bond, and the principal amount of such Daily Rate Bond being tendered, and (ii) the Purchase Date on which such Daily Rate Bond is to be purchased. The Tender Agent shall immediately notify the Trustee and the Remarketing Agent upon receipt of such irrevocable tender notice.

(b) *Purchase on Demand of Holder While Bonds Bear Interest at the Weekly Rate.* While the Weekly Rate Bonds are in the Weekly Mode, each Weekly Rate Bond (or portion of such Bond in an Authorized Denomination) will be purchased on any Business Day, which will be not less than seven calendar days after the date such notice is received in the manner described herein, at the Purchase Price to such Purchase Date. To effect such purchase during a Weekly Mode, a Holder must deliver, on any Business Day, to the Tender Agent, irrevocable written notice (which may be given by telecopy). Such notice must be received by the Tender Agent not later than 4:00 p.m., New York time, on a Business Day in order to be effective on that day. Any notice received after such time, will be deemed given on the next succeeding Business Day. Such notice must specify (i) the principal amount and number of such Weekly Rate Bond, and the principal amount of such Weekly Rate Bond being tendered, and (ii) the Purchase Date on which such Weekly Rate Bond is to be purchased. The Tender Agent shall immediately notify the Trustee and the Remarketing Agent upon receipt of such irrevocable tender notice.

(c) Tender notices given pursuant to this Section shall specify the CUSIP number of the Bond (or portion thereof) to be tendered and otherwise identify such Bond to the satisfaction of the Tender Agent, and shall also specify the principal amount of such Bond being tendered (which shall be an Authorized Denomination) and shall state in effect that such Bond (or portion thereof) shall be purchased on the Purchase Date specified therein at 100% of the principal amount thereof, plus interest accrued to Purchase Date, and that such notice is irrevocable.

(d) *Effect of Tender Notice.* Each tender notice will automatically constitute (A) an irrevocable offer to sell the Modal Bond or portion thereof to which the notice relates on the date the Modal Bonds are purchased to any purchaser selected by the Remarketing Agent, at the Purchase Price, (B) an irrevocable authorization and instruction to the Tender Agent to effect transfer of such Modal Bond or portion thereof upon payment of such Purchase Price to the Tender Agent on the date the Modal Bonds are purchased, (C) an irrevocable authorization and instruction to the Tender Agent to effect the exchange of the Modal Bond to be purchased in whole or in part for other Bonds evidencing principal in an equal aggregate amount so as to facilitate the sale of such Modal Bond or portion thereof, and (D) an acknowledgment that such Holder will have no further rights with respect to such Modal Bond or portion thereof upon payment of the Purchase Price by the Tender Agent on the date the Modal Bonds are purchased, except for the right of such Holder to receive such Purchase Price upon surrender of such Modal Bond to the Tender Agent.

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Section 6.02. Mandatory Tender.

(a) Bonds bearing interest in the Daily Mode or the Weekly Mode (other than Provider Bonds) are subject to mandatory tender by the Holders thereof to the Tender Agent on each date described below at the Purchase Price to the Purchase Date therefor (unless purchased on an Interest Payment Date):

- (i) on each Mode Change Date and any proposed Mode Change Date, including, without limitation, a proposed Fixed Rate Conversion Date;
- (ii) while a Financial Facility is required, at least two Business Days prior to the last day on which funds will be available under the Financial Facility following notice by the Provider to the Trustee and the Tender Agent of the occurrence and continuation of a default under the Financial Facility;
- (iii) while a Liquidity Facility is required, on the second Business Day preceding the expiration date of a Liquidity Facility if by the 20th day preceding such expiration date, a notice of extension of the current Liquidity Facility or a commitment to deliver an alternate liquidity facility has not been delivered;
- (iv) on the effective date of an alternate liquidity facility if the Provider of such alternate liquidity facility is not the initial Provider; and
- (v) pursuant to Section 8.06(c) of this Agreement.

A Holder of a Bond subject to mandatory tender may not elect to retain its Bonds.

With respect to a mandatory tender described in clause (i) above of Bonds bearing interest at a Daily Rate or a Weekly Rate, the Tender Agent is required to give notice to the Holders of such Bonds not later than the 15th day next preceding the Mode Change Date to Daily Rate or Weekly Rate and not later than the 30th day next preceding the Mode Change Date to Fixed Rate Mode stating the Mode Change Date and that such Bonds are required to be purchased on such Mode Change Date.

With respect to a mandatory tender described in clauses (ii) through (iv) above, the Tender Agent is required to give the Holders of such Bonds at least 15 days prior to the date of mandatory tender.

(b) The Purchase Date in connection with a new Provider of a Financial Facility shall be sooner to occur of (i) the effective date of such Financial Facility and (ii) at least two Business Days before the Expiry Date of the Predecessor Financial Facility.

Section 6.03. Notice of Mandatory Tender.

(a) Whenever notice is required by *Section 6.02* to effect a mandatory tender on a Purchase Date, the Tender Agent shall give such notice at least fifteen (15) of days in advance of such Purchase Date.

(b) The notice of mandatory tender shall:

(1) in substance specify:

- (i) the event giving rise to the mandatory tender;
- (ii) the Mode Change Date, if applicable;
- (iii) the Mode to become effective, if applicable;
- (iv) the Purchase Date; and
- (v) that all of the Modal Bonds will be subject to mandatory tender; and

(2) state in effect that:

- (i) all of the Modal Bonds are subject to mandatory tender on such Purchase Date and in order to receive payment of the Purchase Price on the Purchase Date, such Holder shall transfer its Modal Bonds to the Tender Agent with all necessary endorsements on or before 12:00 noon, New York time, on the Purchase Date;
- (ii) such Modal Bonds are deemed tendered on the Purchase Date irrespective of any actual transfer to the Tender Agent and shall cease to bear interest from and after the Purchase Date; and
- (iii) transfers of such Modal Bonds may be made after the Purchase Date to the Tender Agent *but* no interest shall be paid for any period after the Purchase Date.

(3) such notice may contain such additional information as the Tender Agent believes to be necessary or appropriate.

(c) The failure to properly give notice to any Holder of Bonds subject to mandatory tender and entitled hereunder to notice shall not affect the validity of any other mandatory tender as to which notice, if required to be given, was properly given.

Section 6.04. Interest to No Longer Accrue.

The Purchase Price of each Tender Bond shall become due and payable on its respective Purchase Date, and *if* on such Purchase Date the Tender Agent holds amounts sufficient to pay such Purchase Price, *then* interest on such Tender Bond shall cease to accrue; *otherwise*, such Tender Bond shall continue to bear interest as if it had not been subject to purchase on such Purchase Date.

Section 6.05. Remarketing by Remarketing Agent; Priority to Provider Bonds.

(a) The Remarketing Agent shall offer for sale and use its best efforts to sell by each Purchase Date all Tender Bonds and all Provider Bonds.

(b) The Remarketing Agent shall remarket all Provider Bonds before remarketing any Tender Bonds.

(c) The Remarketing Agent shall not sell any Tender Bonds or Provider Bonds at a discount from the principal amount thereof.

(d) The Remarketing Agent shall pay to the Tender Agent amounts received from such sales of Tender Bonds and Provider Bonds and the Tender Agent must advise the Trustee of the amounts received no later than 11:00 a.m., New York time.

(e) The Remarketing Agent shall pay to the Provider directly or pay to the Tender Agent who will pay the Provider, the proceeds of the remarketing of Provider Bonds provided that Provider Bonds will not be released until the Provider is paid in full for such Provider Bonds, including interest accrued thereon at the Provider Rate.

Section 6.06. Draws on Liquidity Facility.

(a) On each Purchase Date the Tender Agent, after giving notice to the Provider that Tender Bonds are to be purchased by the Provider in accordance with the Liquidity Facility, shall direct the Trustee to draw on the Liquidity Facility in accordance with its terms and to the extent of the availability of amounts thereunder, in sufficient time to have amounts available to the credit of the Remarketing Fund.

(b) The Tender Agent shall give notice of the necessity of a draw to the Trustee by 11:15 a.m. New York time and the Trustee shall draw by 11:30 a.m., New York time under the Liquidity Facility by such means and in such form specified by the Provider in order for the Provider to pay under the Liquidity Facility by the time on the Purchase Date specified by the Trustee such amounts in available funds equal to the Purchase Price of the Tender Bonds in accordance with Subsection (c).

(c) The amount of such draw, to the extent of the availability under the Liquidity Facility, shall equal the Purchase Price of all Tender Bonds *less* the amount received by the Tender Agent as the purchase price of remarketed Tender Bonds before the drawing. All Tender Bonds for which the Tender Agent has *not* received the purchase price in respect of the

remarketing by the time the Tender Agent reasonably believes it must draw to comply with *subsection (b)*, above, shall be deemed to have not been remarketed for the purposes of drawing under the Liquidity Facility.

(d) The Trustee shall not draw under the Liquidity Facility to pay the Purchase Price of any Provider Bonds or any Bonds owned by or held for the benefit of the City.

Section 6.07. Source of Funds to Purchase Bonds.

Upon the transfer of a Tender Bond to the Tender Agent with all necessary endorsements, the Tender Agent shall pay the Purchase Price. On each date that Bonds are to be purchased, the Tender Agent will purchase, but only from the funds listed below, such Bonds from their Holders at a purchase price equal to the principal amount of such Bonds, plus accrued interest, if any, to the date of purchase. Funds for the payment of such purchase price will be derived from the following sources in the order of priority indicated:

1. proceeds of the remarketing of such Bonds by the Remarketing Agent to the extent such funds are then available to the Tender Agent;

2. moneys representing proceeds of a Drawing by the Trustee at the direction of the Tender Agent under the Liquidity Facility.

The Tender Agent is required to pay the Purchase Price of each Tendered Bond to the Holder of such Tendered Bond by the 3:00 p.m., New York time, on the Purchase Date, provided that such Holder has delivered such Tendered Bond with any necessary endorsements to the designated office of the Tender Agent:

(1) no later than noon, New York time, on such date.

(2) no later than the close of business on the Business Day following the Business Day of transfer *but* not before the Purchase Date) *if* such Tender Bond is transferred after noon, New York time.

Section 6.08. Tender of Less than all of Bond.

If less than all of a Holder's Bond is subject to mandatory tender or is tendered to the Tender Agent as an optional tender permitted hereunder, *then* upon the transfer of such Bond in whole to the Tender Agent, the City shall execute (if not already executed) and the Tender Agent shall authenticate and deliver to such Holder, on the day of transfer, a Bond or Bonds, registered in the name of such Holder, of the same tenor and in such Authorized Denominations as specified by such Holder as shall equal, in the aggregate, the balance of such Holder's Bond.

Section 6.09. Notifications; Execution and Authentication of Bonds.

(a) Not later than 11:15 a.m., New York time, on the Purchase Date, the Remarketing Agent shall notify the Tender Agent and the Trustee of the amount of Tender Bonds successfully remarketed, the names of the tendering Holders and the registration

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instructions (i.e., the names, addresses and taxpayer identification numbers of the purchasers and the specified Authorized Denominations, if any) with respect thereto.

(b) Bonds purchased in accordance with the provisions of this Agreement will be delivered as follows:

(1) Bonds purchased with moneys representing the proceeds of sale of such Tender Bonds will be delivered to the Remarketing Agent no later than 1:30 p.m., New York City time on the date of purchase against payment therefor in immediately available funds in an amount equal to the Purchase Price therefor and will be registered in the name of the respective purchasers of such Tender Bonds; and

(2) Tender Bonds purchased with moneys drawn under the Financial Facility will be registered in the name of the Provider or its nominee and delivered to the Tender Agent and held by the Tender Agent in accordance with the terms of this Agreement and the Financial Facility.

(c) The City shall execute (to the extent not already executed) and Tender Agent shall authenticate an aggregate principal amount of Bonds necessary to comply with the instructions of the Remarketing Agent even though not all Tender Bonds have been tendered on the Purchase Date.

(1) Such Bonds shall be in such principal amounts and registered by the Tender Agent as Registrar in such names as shall be instructed by the Remarketing Agent (but not in excess of the aggregate principal amount of Tender Bonds) and shall be authenticated as the appropriate Modal Bonds and made available for pick-up by the Remarketing Agent no later than 1:30 p.m., New York time, on the Purchase Date.

(2) To the extent that any Bonds required to be executed and authenticated by this Section are to be held in the Book-Entry Only System maintained by the Securities Depository, then the Tender Agent shall comply with the procedures of the Securities Depository applicable to tender bonds and the transfer of interests in bonds, and no delivery of such Bonds in certificated form is required.

Section 6.10. Actions on Purchase Date.

The following actions shall be taken on the Purchase Date:

(1) From proceeds received from purchasers of remarketed Tender Bonds the Remarketing Agent shall turn over the proceeds received from such remarketing to the Tender Agent for delivery to the person who delivered such Tender Bonds to the Tender Agent. The proceeds of the sale by the Remarketing Agent of any Provider Bonds will be paid to the Provider in accordance with the terms of the Financial Facility.

(2) The Tender Agent shall deposit to the credit of the Remarketing Fund proceeds received from the Remarketing Agent.

(3) The Trustee, if necessary, shall draw on the Liquidity Facility pursuant to *Section 6.06* and deposit the proceeds of such draw to the credit of the Remarketing Fund.

(4) All amounts not otherwise described in this Section received by the Tender Agent in respect of the remarketing of Tender Bonds shall be deposited to the credit of the Remarketing Fund.

(5) Apply amounts credited to the Remarketing Fund as provided in *Section 7.06*.

(6) Provider Bonds, if any, shall be transferred to the Provider in accordance with *Section 7.08*.

(7) The Tender Agent shall notify the Finance Director and the Trustee as provided in *Section 7.08*, and such notification shall include the aggregate principal amount of Provider Bonds delivered to the Provider of such Liquidity Facility.

Section 6.11. *Tender Agent to Hold Bonds and Moneys in Trust.*

The Tender Agent will:

(a) hold all Bonds delivered to it in trust for the benefit of their respective Holders which will have so delivered such Bonds until moneys representing the purchase price of such Bonds will have been delivered to or for the account of or to the order of such Holders; and

(b) hold all moneys delivered to it under the Bond Resolution for the purchase of Bonds in trust for the benefit of the person or entity which will have so delivered such moneys, and not invest such funds or commingle such funds with its general funds, until the Bonds purchased with such moneys will have been delivered to or for the account of such person or entity.

**Article VII
Funds and Accounts**

Section 7.01. *Creation of Funds and Accounts.*

(a) There is hereby established with the Tender Agent a trust fund to be known as the "Credit Facility Fund" together with the following trust accounts within it:

- (1) Interest Account
- (2) Principal Account
- (3) Redemption Account

(b) The Tender Agent is not required to create the Credit Facility Fund unless and until there is a Credit Facility.

(c) There is hereby established with the Tender Agent a trust fund to be known as the "Remarketing Fund".

(d) All moneys received by the Tender Agent hereunder shall be held by the Tender Agent in trust and applied solely as provided in this Agreement and at all times shall be identified as being held in trust for the Bondholders on the books of the Tender Agent subject to the limitations contained in *Section 7.11*.

Section 7.02 "Sufficient Time" for Payments under Credit Facilities.

As used in this Article, *sufficient time* means reasonably sufficient time in which to make the amounts drawn under a Financial Facility available: (i) to the Securities Depository, in accordance with its procedures, for payment on the dates in respect of which such amounts are being drawn if the Bonds to be paid are then held in the "Book-Entry Only System" of the Securities Depository or (ii) to the Holders (other than the Securities Depository or its nominee) for timely payment on the dates in respect of which such amounts are being drawn.

Section 7.03 Credit Facility Draws.

(a) The Tender Agent shall draw under any Credit Facility in sufficient time so as to have available:

(1) to the credit of the Interest Account on the date on which interest is due on the Modal Bonds (whether on an Interest Payment Date or a Redemption Date or by reason of a purchase of Term Bonds to satisfy Sinking Fund Installments), the amount of interest due on outstanding Modal Bonds on such date;

(2) to the credit of the Principal Account on each Principal Installment Date, an amount equal to the Principal Installment due on outstanding Modal Bonds on such Principal Installment Date;

(3) to the credit of the Redemption Account:

(i) on each Redemption Date (other than a Redemption Date with respect to Sinking Fund Installments), an amount equal to the Redemption Price of outstanding Modal Bonds called for redemption on such Redemption Date other than by reason of Sinking Fund Installments; and

(ii) on the purchase date of any Modal Bonds purchased as "open market purchases" pursuant Section 5.5(a) of the Bond Authorizing Resolution, an amount equal to the principal amount of the Modal Bonds so purchased less any discount; and

Section 7.04 Liquidity Facility Draws.

The Trustee shall draw under each Liquidity Facility as provided in *Section 6.06*.

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Section 7.05 Application of the Credit Facility Fund.

(a) As Paying Agent, the Tender Agent shall:

(1) as and when interest is due on outstanding Modal Bonds (whether an Interest Payment Date or a Redemption Date or by reason of a purchase of Term Bonds to satisfy Sinking Fund Installments), pay the same to the Holders entitled thereto from amounts credited to the Interest Account;

(2) as and when Principal Installments are due on outstanding Modal Bonds, pay the same to the Holders entitled thereto from amounts credited to the Principal Account; and

(3) as and when the Redemption Price is due on outstanding Modal Bonds (*other* than by reason of Sinking Fund Installments), pay the same to the Holders entitled thereto from amounts credited to the Redemption Account; and

(4) as and when the purchase price is due on any Modal Bonds purchased pursuant Section 3.03(b) of the Bond Authorizing Resolution, pay the same (exclusive of any accrued interest) to the Holders entitled thereto from amounts credited to the Redemption Account.

(b) No amount shall be withdrawn from the Credit Facility Fund for the purpose of paying all or any part of any Purchase Price of Tender Bonds.

(c) Such payments shall be made in funds immediately available on the date of payment when required by applicable provisions of this Agreement.

Section 7.06. Application of the Remarketing Fund.

(a) As used in this Section, *Necessary Amount* means, with respect to any Purchase Date, the amount, if any, equal to the Purchase Price of Tender Bonds to be purchased on such Purchase Date *less* the amount received by the Tender Agent as the purchase price of such remarketed Tender Bonds.

(b) As of the close of business on each Purchase Date, the Tender Agent shall pay to the Provider of the Liquidity Facility from amounts credited to the Remarketing Fund, the amount, if any, equal to the amount drawn under such Liquidity Facility *less* the Necessary Amount.

(c) The Tender Agent shall, as and when the Purchase Price is payable on Tender Bonds, pay the same to the Holders entitled thereto in accordance with *Section 6.07*.

Section 7.07. Subrogation Rights.

(a) No payment of any amount to a Holder of a Modal Bond made from any amount drawn under a Financial Facility shall discharge the City's obligation to pay such Modal Bond in accordance with its terms.

(b) Whenever an amount is drawn under a Financial Facility to pay an amount due any Holder of a Modal Bond, the Provider of such Financial Facility shall be subrogated to the rights of the Holders to receive such amount and to all appurtenant rights under such Modal Bond, the Bond Authorizing Resolution and this Agreement, including such rights of enforcement and taking other action under the Bond Authorizing Resolution as would otherwise have been available to such Holder in respect of such amount.

Section 7.07A. Reimbursement of Providers.

(a) For the purposes of this Section:

Amended and Restated Ordinance means Ordinance No. 32-85 as amended and restated by Ordinance No. 06-01 of the City of Detroit.

Current Ordinance means Ordinance No. 30-95 as amended by Ordinance No. 34-95, Ordinance No. 23-97 and Ordinance No. 34-99 of the City of Detroit.

(b) Whenever an amount is drawn under a Credit Facility or a Liquidity Facility and *except* as otherwise provided therein, on the day of such draw:

the City shall reimburse the Provider of such Credit Facility or Liquidity Facility such amount as is due thereunder on the date of the drawing and the interest portion of the Purchase Price of Tender Bonds paid with amounts drawn under the Liquidity Facility from Net Revenues remaining after meeting the requirements of Section 5 of the Current Ordinance; provided that when the Amended and Restated Ordinance becomes effective, such amounts constitute Ancillary Subordinated Obligations and shall be paid from the Ancillary Subordinated Obligations Account established in respect of Second Lien Bonds; and

to the extent such Provider is not reimbursed for an amount drawn thereunder, the City shall execute (if not already executed) and deliver Bonds to such Provider, authenticated by the Fiscal Agent, as provided in the Credit Facility or Liquidity Facility in accordance with *Section 7.08*.

Section 7.08 Provider Bonds.

(a) *If* a Credit Facility or a Liquidity Facility is provided pursuant to a separate Financial Facility Agreement that also provides for reimbursement and related matters (such as a letter of credit and reimbursement agreement), *then* the references in this Section to "Credit Facility" or "Liquidity Facility" refer to such Financial Facility Agreement so far as applicable.

(b) Immediately upon the receipt of a drawing under a Credit Facility or a Liquidity Facility, the Tender Agent shall notify the Finance Director and the Trustee of the amount thereof, the purpose for the drawing, the numbers or other identifying marks of the Modal Bonds for which the drawing was made and the subrogation rights of the Provider of such Credit Facility or a Liquidity Facility to corresponding amounts due Holders of such Modal Bonds and (without duplication), amounts payable to such Provider under such Credit Facility or Liquidity Facility and the due dates thereof.

(c) The following governs the terms of Provider Bonds:

(1) The aggregate principal amount of Provider Bonds shall not exceed the unreimbursed amount of the drawing *exclusive* of such portion thereof, if any, as shall represent interest on the related Modal Bonds.

(2) The denomination or denominations shall be as specified by the Provider.

(3) The interest rate shall be as set forth in such Credit Facility or Liquidity Facility.

(4) The principal amount shall be payable, whether on mandatory redemption or at maturity, on such dates as provided and or in such Credit Facility or Liquidity Facility.

(5) Other terms of the Provider Bonds shall be as provided in such Credit Facility or Liquidity Facility *subject* only to any limitations contained in the Act, the Bond Authorizing Resolution and this Agreement.

(6) Except as otherwise provided above, the terms of the Provider Bonds shall be the same as other Bonds.

(7) Provider Bonds shall convey such appurtenant rights under the Bond Authorizing Resolution and this Agreement as are conveyed by way of the Provider's right of subrogation plus such additional rights as are provided in respect of payments due under such Credit Facility or Liquidity Facility.

(8) Tender Bonds purchased by the Provider constitute Provider Bonds which will, immediately, upon receipt thereof by the Tender Agent, be registered in the name of the Provider or its nominee and held by the Tender Agent for the benefit of the Provider.

(9) To the extent amounts are due and owing the Provider under the Financial Facility, the proceeds of the remarketing of Provider Bonds will be held by the Tender Agent for the account of, and in trust solely for, the Provider, will not be commingled with any other moneys held by the Tender Agent, and will be paid over immediately to the Provider.

(10) Prior to the release of Provider Bonds to the Remarketing Agent (provided that the Tender Agent has received written notice that amounts available under the

Financial Facility have been reinstated in full), the Trustee will, on the dates determined in accordance with the Financial Facility, apply the moneys in the Remarketing Fund established under the Bond Resolution and this Agreement to the payment of principal of, and interest on, amounts owed to reimburse the Provider for paying a Drawing for the Purchase Price of Tender Bonds in the manner provided in this Agreement and the Financial Facility, but the Trustee will not draw on the Financial Facility to purchase Provider Bonds.

(d) No Provider Bonds shall be transferred by the Provider *except* as Modal Bonds in any denomination authorized for Modal Bonds of the denomination being transferred and only as otherwise having terms herein permitted for Modal Bonds.

(e) Provider Bonds shall be (i) remarketed prior to any Tender Bonds and (ii) in the case of any redemption, redeemed prior to any other Bond.

Section 7.09. Investment of Moneys.

(a) Amounts credited to the Remarketing Fund or any Account shall be invested by the Tender Agent at the written direction of the Finance Director in Government Obligations maturing on such dates and in such amounts as will permit the Tender Agent to timely make the payments required hereunder from such Fund or Account.

(1) The Finance Director may direct the Tender Agent to acquire any such Government Obligations under agreements requiring the seller thereof to reacquire Government Obligations on such dates and in such amount as will permit the investment to meet the above maturity limitations *if* (i) such agreements are permitted by law and (ii) entering into such an agreement will not result in a reduction of the rating of Modal Bonds as evidenced in writing by each Rating Agency.

(b) The Remarketing Fund and each Account shall include all investments made with moneys therein and all interest realized thereon and proceeds of the sale or other disposition thereof. Investments shall be valued as provided in the Bond Authorizing Resolution for investments made thereunder.

(c) The Tender Agent shall have no liability or responsibility for any loss resulting from an investment made in accordance with this Section, including without limitation loss resulting from the disposition of any Investment disposed of to provide moneys needed prior to the date or dates indicated by the City or needed on account of any acceleration or other requirement of early payment hereunder.

Section 7.10. No Lien or Claims.

None of the Trustee, Tender Agent, Paying Agents, Remarketing Agent, any Provider (*other* than as a Holder) nor any other Person *except* for Bondholders shall have any lien or claim against any Fund or Account created pursuant to this Agreement.

Section 7.11. Money Held for Particular Bonds.

Amounts held hereunder for the payment of principal (and premium, if any) of and interest on particular Modal Bonds shall be held in trust solely for the Holders thereof. Any such amounts remaining unclaimed after six years after the same shall have become due shall be applied as provided in the terms of the Bond Authorizing Resolution. As used in this Section, the meaning of *principal* and *interest* includes Purchase Price.

Article VIII Bond Insurance and Financial Facilities

Section 8.01 When Required.

(a) A Modal Bond that is in a Mode that provides for either optional or mandatory tenders shall be the subject of a Liquidity Facility.

(b) A Modal Bond shall be the subject of Credit Enhancement.

Section 8.02. Financial Facility Required Amounts.

(a) Each Financial Facility required by *Section 8.01* for any Bond in a Short-Term Mode shall meet the following requirements:

(1) the principal component of such Financial Facility shall equal the principal amount of such Modal Bond; and

(2) the interest component of such Financial Facility shall equal 34 days' interest on such Modal Bond calculated at the Maximum Rate using the applicable Day Count Convention.

(b) No Provider Bond shall be the subject of a Credit Facility.

Section 8.03. Terms of Conforming Financial Facilities.

A Conforming Financial Facility shall:

(1) meet the requirements of *Section 8.02* after giving effect to the purposes for which such Financial Facility is being acquired;

(2) become effective not later than at least two (2) Business Days before the Expiry Date or the Termination Date, as applicable, of the Predecessor Financial Facility; *provided* that any mandatory tender draw to occur by reason of the substitution of a new Provider shall occur under the Predecessor Financial Facility;

(3) have a Expiry Date that is a Business Day occurring not sooner than the earlier of (i) the first anniversary of date on which such conforming Financial Facility

becomes effective and (ii) the last maturity date of the Bonds for which such Financial Facility is being acquired;

(4) *if* such Financial Facility is a letter of credit, name the Trustee as the beneficiary and be transferable to any successor Trustee;

(5) provide at least comparable notice periods and opportunities to draw funds thereunder as the Predecessor Financial Facility provided upon the occurrence of a Termination Event;

(6) provide that payments to the Tender Agent thereunder shall be paid in funds of the Provider immediately available to the Tender Agent on the day such payment is due; and

(7) provide for drawings or other payments thereunder to be made on terms otherwise at least equivalent in substance to the terms of the Predecessor Financial Facility and be in form and substance satisfactory to the Tender Agent.

(8) be assigned the highest short-term ratings of Moody's Investor Service, Fitch, Inc. and Standard & Poor's for Bonds in the Short Term Mode.

Section 8.04. Substitution of Financial Facilities.

(a) *Substitute Financial Facility* means (i) a new Financial Facility (regardless of whether the Provider thereof is a new Provider or the Provider of the Predecessor Financial Facility) to be substituted for the Predecessor Financial Facility and (ii) any amendment or modification in any material adverse aspect of an existing Financial Facility with respect to the Bonds covered by such Financial Facility. *Substitute* has the correlative meaning when used with respect to any Credit Facility or any Liquidity Facility.

(b) The City shall not execute any Substitute Financial Facility *unless*:

(1) the Finance Director determines that such Substitute Financial Facility is a Conforming Financial Facility and

(2) the City has obtained, as applicable:

(i) in the case of a Substitute Liquidity Facility, the consent of the Bond Insurer or

(ii) in the case of Substitute Credit Facility, the consent of the Bond Insurer; and

(3) the City has obtained a Rating Confirmation unless the Substitute Financial Facility is a Liquidity Facility in which case a Rating Confirmation shall not be required.

(4) the City has paid all amounts due under the predecessor Financial Facility.

(c) At the direction of the Finance Director, the Tender Agent shall accept any Substitute Financial Facility in substitution for a Predecessor Financial Facility

(1) if the Tender Agent has received and then holds:

(i) a certificate of the Finance Director that such Substitute Financial Facility is a Conforming Financial Facility, and

(ii) a Favorable Bond Counsel's Opinion with respect to such Substitute Financial Facility, and

(iii) such consents as are required by *subsection (b)(2)*, above, and

(iv) the Rating Confirmation required by *subsection (b)(3)*, and

(2) if the Provider of such Substitute Financial Facility is a new Provider, the Finance Director has given the Tender Agent notice of such substitution not later than the minimum number of days required by *Section 6.02* for notices given in connection with mandatory tender by reason of a new Provider *plus* 15 days (or such fewer days in advance of such minimum number as may be acceptable to the Tender Agent), and

(3) if the Substitute Financial Facility is a liquidity support facility, meets the Liquidity Facility Requirements and such requirements are incorporated at the time of such substitution into this Agreement by amendment.

Section 8.05. Reduction and Cancellation.

(a) The Finance Director may direct the Tender Agent to reduce the principal and interest components of the Financial Facility to take into account any Bonds that are no longer "outstanding" within the meaning of that term as used in the Bond Authorizing Resolution.

(b) Whenever no Modal Bonds are outstanding or when the Bonds are converted to Fixed Rate Mode, the Finance Director may direct the Tender Agent to cancel each Financial Facility to the extent it may be canceled.

(c) The Tender Agent shall reduce or cancel Financial Facilities as directed by the Finance Director in accordance with this Section.

Section 8.06. Termination by Provider.

(a) Each Notice Party shall give every other Notice Party notice of every Termination Notice received by it and of its contents within two Business Days of its receipt.

(b) As soon as practicable, the Tender Agent shall give notice to the Holders of Bonds affected by a Termination Event of such Termination Event and, if such Termination Notice is a Last Put Termination Notice, of the Purchase Date.

(c) In the case of a Last Put Termination Notice and in order to give the Holders of affected Bonds as much advance notice of the Purchase Date to be established in respect thereof as possible under the circumstances, the Tender Agent shall establish such Purchase Date as long after the date on which the Tender Agent gives notice to the Holders of Bonds affected by the Last Put Termination Notice as it can *subject* to the following:

(1) No advance notice of such Purchase Date is required if the Tender Agent cannot give such advance notice in the exercise of reasonable diligence.

(2) In all events the Purchase Date shall be a Business Day (i) subject to (ii) below, set by the Provider *if* the Liquidity Facility provides in effect that the obligation of the Provider to purchase Tender Bonds shall terminate upon the purchase by the Provider of all Tender Bonds tendered or deemed tendered pursuant to the Last Put Termination Notice or (ii) at least two Business Days before the expiration or termination of the Liquidity Facility.

(d) For the purposes of this Section:

(1) *As soon as practicable* means, with reference to any act to be performed by the Tender Agent, such Business Day on which the Tender Agent can perform such act in the exercise of reasonable diligence.

(2) *Reasonable diligence* means, with respect to the Tender Agent performing any act, performing such act within three Business Days, after the Tender Agent receives a Termination Notice from the Provider or another Notice Party.

(e) If the Liquidity Facility is about to expire or terminate by its terms and has not theretofore been extended or replaced by a Substitute Financial Facility satisfactory to the Bond Insurer, the City and the Remarketing Agent shall use their best efforts to convert all outstanding Bonds to Fixed Rate not later than 90 days prior to the scheduled expiration dated of the Liquidity Facility or, in the event of termination, as soon as possible (but in no event more than 180 days) thereafter.

Article IX Concerning the Bond Insurer

Section 9.01 Terms and Conditions of Bond Insurance

Covenants or agreements required by the Bond Insurer pursuant to its commitment for issuance of the Bond Insurance are set forth in Exhibit C, which is attached hereto and is incorporated herein by reference.

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Article X
Concerning the Trustee, Transfer Agent, Tender Agent and the Remarketing Agent

Section 10.01. Trustee, Transfer Agent , Tender Agent, and Remarketing Agent.

The Trustee, Transfer Agent, Tender Agent and Remarketing Agent have been appointed by the Finance Director in the Sale Order.

Section 10.02. Responsibilities of Trustee and Tender Agent.

(a) As regards this Agreement:

(1) The Trustee and Tender Agent each undertakes to perform such duties and only such duties as are specifically set forth herein, and no implied covenants or obligations shall be read into this Agreement against either the Trustee or the Tender Agent.

(2) Each of the Trustee and the Tender Agent may rely and shall be protected in acting or refraining from acting upon any resolution, certificates, statement, instrument, opinion, report, notice, request, direction, consent, order or other paper or document believed by it to be genuine and to have been signed or presented by the proper parties.

(3) Whenever in the administration of this Agreement the Trustee or the Tender Agent shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, it may (unless other evidence is herein specifically prescribed), in the absence of bad faith on its part, request and rely on a certificate executed by the Finance Director.

(4) Each of the Trustee and Tender Agent may consult with counsel and the written advice or opinion of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith and in reliance thereon.

(5) Neither the Trustee nor the Tender Agent is bound to make any investigation into the facts or matters in any resolution, certificates, statement, instrument, opinion, report, notice, request, direction, consent, order or other paper or document, *but* it may make such further inquiry into such facts or matters as it may see fit.

(b) In the absence of bad faith on its part, each of the Trustee and Tender Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certifications and opinions furnished to it and conforming to the requirements of this Agreement; *but*, in the case of any certificates or opinions that by any

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provision hereof are specifically required to be furnished to the Trustee or the Tender Agent, it shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Agreement.

(c) No provision of this Agreement shall require the Trustee or the Tender Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that the repayment of such funds or adequate assurance against such risk or liability is not reasonably assured to it.

Section 10.03. Remarketing Agent.

The Remarketing Agent shall have such rights, duties, privileges and immunities as are contained in the Remarketing Agreement and not inconsistent with this Agreement; *provided* that in all events the Remarketing Agent shall be obligated by the Remarketing Agreement to perform such duties as are herein set forth to be performed by the Remarketing Agent.

Section 10.04 Removal or Resignation of Trustee, Transfer Agent, Tender Agent or Remarketing Agent

The Trustee, Transfer Agent, Tender Agent or Remarketing Agent may be removed by the City or may resign by notice in writing not less than thirty (30) days before such removal or resignation shall take effect. Such removal or resignation shall not take effect until a successor Trustee, Transfer Agent, Tender Agent or Remarketing Agent is duly appointed and qualified to serve in such capacity. Any successor Trustee, Transfer Agent, Tender Agent or Remarketing Agent shall have the same qualifications as the initial Trustee, Transfer Agent, Tender Agent or Remarketing Agent. The Provider and the Bond Insurer shall receive notice of the removal or resignation of the Trustee and the Remarketing Agent. The Remarketing Agent shall at all times be acceptable to the Provider and the Bond Insurer.

Article XI Miscellaneous

Section 11.01 Limitation on Defeasance.

The City shall not defease the lien of the Bond Authorizing Resolution securing any Bonds by the deposit of funds in escrow (commonly known as a "legal defeasance") without obtaining a Rating Confirmation from each Rating Agency of the Bonds so defeased.

Section 11.02. Amendments.

(a) This Agreement cannot be amended or supplemented *except* in accordance with this Section.

(b) No amendment of, or supplement to, this Agreement shall become effective without the consent of the Trustee and the Tender Agent (which shall be evidenced by the

execution of such amendment and which, as to each of them, shall include all of the capacities in which it acts hereunder), each Provider, the Bond Insurer and the Remarketing Agent. Every other subsection of this Section is subject to the limitations contained in this subsection.

(c) The City shall provide each Rating Agency with a copy of each amendment or supplement at least 15 days in advance of the same becoming effective.

(d) The provisions of the Bond Authorizing Resolution relating to amendments and consent of Bondholders (the *Consent Provisions*), are hereby incorporated by reference in full as though set forth in full herein as if all references therein to "Ordinance" referred to this Agreement; "Bonds" referred to the Bonds issued hereunder; and "Holders" referred to the Holders of Bonds issued hereunder.

(e) For the purpose of acquiring consent for the purposes of the Consent Provisions, as incorporated by reference or otherwise, the consent of a Bondholder acquiring a Bond in a remarketing in which the remarketing circular or other disclosure document fully disclosed the terms of such amendment or supplement shall be considered obtained as if such consents were being solicited hereunder or under the Consent Provisions, but no actual consent shall be required and no more than one such disclosure shall be required.

(f) Before any amendment or supplement shall become effective, the Bond Insurer shall be provided with a copy of such amendment or supplement and the Bond Insurer shall have given its prior written consent.

Section 11.03. Notices to Rating Agencies.

The City shall give notice to each Rating Agency of any of the following promptly on the occurrence thereof: (i) the expiration, termination, extension or substitution of any Liquidity Facility or any amendment or modification of, or any material change to, any Liquidity Facility, (ii) any redemption, mandatory tender or defeasance of Bonds, (iii) any Mode change to the Fixed Rate Mode and (iv) any change in the Trustee, Remarketing Agent or Tender Agent.

Section 11.04. Notices.

(a) Each notice, request or other communication given hereunder to be given to any Person named below shall be in writing or otherwise given by Electronic Means (except as provided below) and given to it at its address appearing below or to such other address as it may hereafter specify for such purpose by notice to the others named below.

City of Detroit, as Issuer
Coleman A. Young Municipal Center
Room 1200
2 Woodward Avenue
Detroit, MI 48226
Attention: Finance Director
Telephone: (313) 224-3490

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U. S. Bank Trust National Association, as Trustee
Suite 740, Buhl Building
535 Griswold
Detroit, MI 48226
Attn: Corporate Trust Services
Telephone: (313) 963-9428
Fax: (313) 963-9428

U.S. Bank Trust National Association, as Tender Agent
100 Wall Street
New York, New York 10005
Attn: Corporate Trust Services
Telephone: (212) 361-2505
Fax: (212) 509-4529

Financial Guaranty Insurance Company, as Bond Insurer
115 Broadway
New York, New York 10006
Attn: Risk Management

Electronic Means requires prior consent.

Financial Guaranty Insurance Company, as Liquidity Facility Provider
115 Broadway
New York, New York 10006
Attn: Senior Counsel

Fitch, Inc.
One State Street Plaza
New York, New York 10004
Attn: Municipal Structure Group
Telephone: (212) 908-0500

Standard & Poor's Ratings Services
55 Water Street, 38th Floor
New York, New York 10041

Moody's Investors Services
99 Church Street
New York, New York 10007
Attention: Fully Supported Group

Each notice, request or other communication given hereunder shall be effective as provided in the Bond Authorizing Resolution.

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Section 11.05. Severability.

In the event that any provision of this Agreement is held to be invalid in any circumstance, such invalidity shall not affect any other provision or circumstances.

Section 11.06. Payments Due and Acts to be Performed on Non-Business Days.

If a date of maturity of interest on or principal of the Bonds or any Redemption Date or Purchase Date, or a date fixed for the performance of any other act under this Agreement, shall not be a Business Day, payment of such interest or principal, Redemption Price or Purchase Price need not be made, and any such other act need not be performed, on such date but may be made or performed on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and, *except* as otherwise herein provided, no interest on any amount so paid shall accrue for the period after such date.

Section 11.07. Captions; Table of Contents.

The captions or headings in, and the table of contents for, this Agreement are for convenience only and in no way define, limit or describe the scope or content of any provision hereof.

Section 11.08. Counterparts.

This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 11.09. Governing Law.

This Agreement shall be governed by the law of the State exclusive of its conflicts of law.

[Signatures appear on page S-1.]

*[Signature Page to the Variable Rate Demand
Bonds Supplement and Agreement, dated as of
May 31, 2001, among the City of Detroit, U. S.
Bank Trust National Association, as Trustee and
Transfer Agent, and U.S. Bank Trust National Association, as
Tender Agent]*

In Witness Whereof, the **City of Detroit, U. S. Bank Trust National Association**, as Trustee and Transfer Agent under the Bond Authorizing Resolution and **U.S. Bank Trust National Association**, as Tender Agent, have caused these presents to be executed in their behalf by their respective authorized representatives, all as of the date first above written.

City of Detroit

By: _____
J. Edward Hannan
Finance Director

U. S. Bank Trust National Association,
as Trustee and Transfer Agent

By: _____
Its: _____

U.S. Bank Trust National Association,
as Tender Agent

By: _____
Its: _____

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Form of Variable Rate Bond

The Bonds shall be in substantially the following form and tenor with such necessary or appropriate omissions, insertions and variations as are permitted or required hereby and by the Indenture and are approved by the Authorized Officers executing the same and the Bonds on behalf of the City and execution thereof by such Authorized Officers shall constitute conclusive evidence of such approval.

R-__

NOTICE: Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the City of Detroit or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

THIS BOND IS SUBJECT TO MANDATORY TENDER FOR PURCHASE
AT THE TIME AND IN THE MANNER HEREINAFTER DESCRIBED,
AND MUST BE SO TENDERED OR WILL BE DEEMED TO HAVE BEEN SO TENDERED
UNDER CERTAIN CIRCUMSTANCES AS DESCRIBED HEREIN.

UNITED STATES OF AMERICA
STATE OF MICHIGAN
COUNTY OF WAYNE
CITY OF DETROIT

CITY OF DETROIT WATER SUPPLY SYSTEM
REVENUE REFUNDING SECOND LIEN BONDS
(VARIABLE RATE DEMAND), SERIES 2001-C

Interest Rate <u>Mode</u>	<u>Maturity Date</u>	Original <u>Issue Date</u>	<u>CUSIP</u>
_____	July 1, 20__	_____, 2001	251255__

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: ***\$_____***

The CITY OF DETROIT, Wayne County, Michigan (the "City"), for value received, hereby promises to pay the Principal Amount specified above to the Registered Owner specified above, or registered assigns, but only from the sources referred to herein, on the Maturity Date specified above, unless prepaid prior thereto as hereinafter provided, and to pay interest thereon, but solely from the sources hereinafter referred to, at the rate determined as herein provided from the most recent Interest Payment Date (as hereinafter defined) to which interest has been paid or duly provided for, or from the date of authentication hereof if such date is on an Interest Payment Date to which interest has been paid or duly provided for, or from the Issue Date specified above if no interest has been paid or duly provided for, such payments of interest to be made on each Interest Payment Date until the principal or redemption price hereof has

been paid or duly provided for as aforesaid. The principal or redemption price of and interest on this Bond may be paid in any coin or currency of the United States of America which, at the time of payment, is legal tender for the payment of public or private debts. The principal or redemption price of this Bond (or of a portion of this Bond, in the case of a partial redemption) is payable to the registered owner hereof in immediately available funds or next day funds, depending on the applicable Rate Period (as defined below) and the instructions of the registered owner upon presentation and surrender hereof at the principal corporate trust office of US Bank Trust National Association, Detroit, Michigan or its successor, as Trustee (the "Trustee"), under the Ordinance, as hereinafter defined, securing the Series of Bonds of which this Bond is one. Interest shall be paid to the registered owner hereof whose name appears on the registration books kept by the Trustee as of the close of business on the applicable regular or special record date by check mailed to such registered owner, provided that interest for any Daily or Weekly Rate Period (as described herein) shall be paid in immediately available funds by wire transfer to a bank within the continental United States or by deposit to the account of the registered owner hereof if such account is maintained by the Trustee as specified by the Remarketing Agent (as defined below) or as otherwise directed by the registered owner hereof five Business Days prior to the time for payment with respect to Bonds accruing interest at a Flexible Rate or two Business Days prior to the Interest Payment Date with respect to Bonds accruing interest at the Initial Rate or Daily or Weekly Rates; provided further that interest accrued during any Flexible Rate Period at the maturity of this Bond shall be paid only upon delivery of this Bond. The regular record date for any Interest Payment Date shall be the close of business on the day immediately preceding the Interest Payment Date, except that, while this Bond accrues interest at the Term Rates (as described herein), the regular record date shall be the close of business on the 15th day of the calendar month immediately preceding such Interest Payment Date. If sufficient funds for the payment of interest becoming due on any Interest Payment Date are not on deposit with the Trustee on such date, the Trustee may establish a special interest payment date on which such overdue interest shall be paid and a special record date relating thereto. This Bond is registered as to both principal and interest on the registration books kept with the Trustee and may be transferred or exchanged, subject to the further conditions specified in the Ordinance, only upon surrender hereof at the principal corporate trust office of the Trustee.

This Bond shall be purchased on demand of the registered owner hereof, as hereinafter described.

For the prompt payment of the principal of and interest on this Bond, the revenues of the Water Supply System of the City (the "System"), including all appurtenances, extensions and improvements thereto, after provision has been made for reasonable and necessary expenses of operation, maintenance and administration (the "Net Revenues"), are irrevocably pledged, and a statutory second lien thereon is recognized and created, subject only to the lien as to the Net Revenues created in favor of holders of the City's (a) \$54,230,000 original aggregate principal amount Water Supply System Revenue Bonds, Series 1990; (b) \$269,440,000 original aggregate principal amount Water Supply System Revenue and Revenue Refunding Bonds, Series 1992; (c) \$193,805,000 original aggregate principal amount Water Supply System Revenue and Revenue Refunding Bonds, Series 1993; (d) \$60,485,000 original aggregate principal amount Water Supply System Revenue Refunding Bonds, Series 1995-B; (e) \$215,300,000 original aggregate principal amount Water Supply System Revenue (Senior Lien) Bonds, Series 1997-A; (f) \$30,555,000 original aggregate principal amount Water Supply System Revenue Refunding (Senior Lien) Bonds, Series 1997-B; (g) \$256,340,000 original aggregate principal amount Water Supply System Revenue Bonds, Series 1999-A; (h) \$302,485,000 original aggregate principal amount Water Supply System Revenue Bonds, Series 2001-A (i) \$108,985,000 original aggregate principal amount Water Supply System Revenue Second Lien Bonds, Series 2001-B; (j) any other bonds on a parity with the foregoing bonds issued hereafter pursuant to the Bond Ordinance (hereinafter

defined); and (k) Junior Lien Bonds (as defined in the Bond Ordinance) which shall have acceded to parity status with the foregoing bonds pursuant to the terms of the Bond Ordinance.

This Bond is one of a series of Bonds of even Original Issue Date aggregating the principal sum of \$_____ (collectively the "Bonds" and each a "Bond") issued pursuant to Ordinance No. 32-85, as supplemented and amended by Ordinance No. 33-85, Ordinance No. 23-88, Ordinance No. 8-92, Ordinance No. 30-95, Ordinance No. 34-95, Ordinance No. 23-97, Ordinance No. 34-99 and Ordinance No. 06-01 and by a Resolution of the City Council adopted on January 31, 2001, and amended on April 25, 2001, and a Sale Order of the City's Finance Director, dated _____, 2001 (as supplemented and amended, collectively, the "Bond Ordinance"), and under and in full compliance with the Constitution and statutes of the State of Michigan, including specifically Act No. 94, Public Acts of Michigan, 1933, as amended, for the purpose of providing funds for refunding \$_____ principal amount of previously issued bonds, and paying costs of issuance of the Bonds.

For a complete statement of the revenues from which and the conditions under which this Bond is payable, a statement of the conditions under which Additional Bonds (as defined in the Bond Ordinance) of equal standing and Additional Second Lien Bonds (as defined in the Bond Ordinance) of junior standing may hereafter be issued and the general covenants and provisions pursuant to which this Bond is issued, reference is made to the Bond Ordinance.

The Bonds are issued as modal bonds. As such, the Bonds may be successively changed from one interest rate mode (a "Mode") to another, and while in a particular Mode, are subject to redemption and tender under certain conditions, all as provided in the Sale Order, certain portions of which are summarized below. The Sale Order requires all of the Bonds to be in the same Mode. This Bond is in a Short Term Mode when it bears interest as provided for the Daily Mode or the Weekly Mode, and is in the Long Term Mode when it bears interest as provided for the Fixed Rate Mode. This Bond is a Bank Bond when it is owned by the Provider of the Liquidity Provider as described below under "Liquidity Facility".

Definitions

Undefined capitalized terms used herein and defined in the Sale Order are used herein as therein defined.

Interest

Interest is payable on the Principal Sum of this bond payable at a rate determined on the Rate Determination Date for then applicable Mode and effective as of the immediately following Interest Adjustment Date for such Mode and effective until (and excluding) the next Interest Adjustment Date or if such Mode includes only one Interest Adjustment Date then the day before such Mode is changed.

Calculation of Interest

Interest shall be calculated at the Day Count Convention for the applicable Mode for the period commencing on the Interest Adjustment Date for such Mode and ending on (and including) the day before the next Interest Adjustment Date or if such Mode includes only one Interest Adjustment Date then the day before such Mode is changed.

Mode	Day Count Convention	Rate Determination Date	Interest Adjustment Date	Date
Daily	Same as Commercial Paper Mode	Each Business Day	Rate Determination Date	First Business Day of each calendar month
Weekly	Same as Commercial Paper Mode	Each Tuesday except as provided in the Sale Order in certain circumstances	The first day immediately following the initial Rate Determination Date and thereafter each Wednesday	Same as Daily Mode
Fixed Rate . .	Same as Term Mode	Same as Term Mode	Same as Term Mode	Same as Term Mode

Determination of Interest

The interest rate shall be determined by the Remarketing Agent on each Rate Determination Date for this bond while in such other Mode as the interest rate that, in the judgment of the Remarketing Agent, would allow this bond to be sold at par plus accrued interest, under prevailing market conditions when taking into consideration all other, if any, the Bonds in the same Mode being remarketed on such Rate Determination Date.

The Sale Order provides for alternative rates upon the occurrence of certain events therein defined as Rate Suspension Events or during a Suspension Period.

Mode Changes

The Mode of this bond may be changed from time to time as provided in the Sale Order, and each such Mode shall be effective as therein provided.

Payment of Interest

Interest is payable on the Interest Payment Date for the applicable Mode to the registered holder of this bond as shown on the Registry (the Holder) as of the Record Date for such Mode provided that: (i) if any such Interest Payment Date occurs after the stated maturity of this bond then interest shall be paid on such stated maturity; and (ii) if interest on this bond shall be in default, then such interest shall be payable on the Special Interest Payment Date, if any, established as provided in the Sale Order.

ModeRecord Date

Daily Mode and Weekly Mode

The day (whether or not a Business Day) immediately before each Interest Payment Date.

Fixed Rate

The fifteenth day (whether or not a Business Day) of the month immediately before each Interest Payment Date for such Bond

The principal (and premium, if any) of, and interest on Bonds shall be payable in lawful money of the United States of America.

Interest shall be paid by the Fiscal Agent acting as Paying Agent on the respective Interest Payment Dates to the Holder entitle thereto as follows:

- (i) while in any Short Term Mode, by wire transfer of immediately available funds to the account specified by such Holder in a writing delivered to the Fiscal Agent. Such writing shall remain in effect until revoked or revised by such Holder in a writing delivered to the Fiscal Agent; and
- (ii) while in any Long Term Mode, by check mailed by the Fiscal Agent to each such Holder at its address appearing in the Registry as of the applicable Record Date except that if such Holder holds \$1,000,000 or more in aggregate principal amount of the Bonds in the Long Term Mode, payment shall be made in the same manner as provided in Paragraph (i), above.

Payment of Principal and any Redemption Premium

The principal (and premium, if any) of this bond is payable to the Holder upon surrender to either the Trustee or the Fiscal Agent acting as Paying Agent.

Payment in Legal Tender

The principal (and premium, if any) of, and interest on, this bond is payable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts.

Tenders

Optional Tender

While in the Daily Mode or Weekly Mode, this bond is subject to tender at the option of the Holder at the Purchase Price of 100% of the principal amount thereof, plus interest accrued to the Purchase Date, upon notice given by the Holder as provided in the Sale Order. The Sale Order provides that the right of the Holder to tender this bond at the Holder's option shall be suspended upon the occurrence of an Immediate Termination Event.

Mandatory Tender

The Sale Order provides that this bond is subject to mandatory tender upon the occurrence of any of certain events enumerated in the Sale Order upon notice as is required therein to be given at the Purchase Price of 100% of the Principal Sum plus interest accrued thereon to the Purchase Date.

Effect of Exercise of Option for Optional Tender or Call for Mandatory Tender

If the Holder of this bond shall exercise its option to tender this bond or this bond is called for mandatory tender, all as provided in the Sale Order, then the Purchase Price of this bond (which includes interest accrued to the Purchase Date) shall become due and payable on the Purchase Date, and if on such Purchase Date the Fiscal Agent holds amounts sufficient to pay such Purchase Price, then interest on this bond shall cease to accrue; otherwise, this bond shall continue to bear interest as if it had not been subject to purchase on such Purchase Date.

Redemption

Optional Redemption -Short Term Mode

When in a Short Term Mode, this bond is subject to redemption upon notice given as required in the Sale Order in whole on any Business Day and in part on any Interest Payment Date at the option of the City at a Redemption Price of 100% of the principal amount thereof to be redeemed plus interest accrued to the Redemption Date.

Optional Redemption--Fixed Rate Mode

When in the Fixed Rate Mode, this bond is subject to redemption upon notice given as required in the Sale Order in whole on any date or in part on any Interest Payment Date at the option of the City at the Redemption Prices set forth in the Sale Order plus interest accrued to the Redemption of Date.

Mandatory Redemption - Amortization Requirements

This bond is subject to mandatory redemption by reason of the Amortization Requirements established pursuant to the Sale Order upon notice given as required in the Sale Order in part on each Principal Installment Date in the amount of the Amortization Requirement for such Principal Installment Date after giving effect to any amounts credited to such Amortization Requirement as a result of the redemption or purchase of other the Bonds of the same maturity as this bond, pursuant to _____ of the _____, at a Redemption Price of 100% of the principal amount thereof to be redeemed plus interest accrued to the Redemption Date.

Effect of Call for Optional or Mandatory Redemption

As of the Redemption Date, if this bond has been called for redemption, proper notice of redemption has been given and funds sufficient to pay the Redemption Price are available as provided in the Sale Order, interest will cease to accrue on this bond.

Liquidity Facility

The Bonds are initially issued subject to a Liquidity Facility and while subject to a Liquidity Facility (whether the initial Liquidity Facility or a Substitute Liquidity Facility) are subject to optional tender and certain mandatory tender events and if acquired by the Provider of such Liquidity Facility pursuant thereto are Provider Bonds and shall bear interest, be subject to redemption and contain such other terms as provided in such Liquidity Facility, the payment agreement related thereto and/or the Sale Order. The Liquidity Facility may be terminated with respect to all of the Bonds as provided in the Sale Order. The Liquidity Facility in effect on the date of issuance of the Bonds is the Standby Bond Purchase Agreement, dated as May 31,

2001 (the Initial Liquidity Facility), between the Trustee and FGIC Securities Purchase, Inc. (the Provider), and the Provider's commitment to purchase the Bonds thereunder expires on May 31, 2006, unless extended as provided therein.

Further Information

Reference is hereby made to the Act and the Sale Order for a description of the funds pledged thereunder, the nature and extent of the security thereby created, and the rights, limitation of rights, obligations, duties and immunities of the City, the Trustee, the Fiscal Agent and the Holders of the Bonds. Certified copies of the Sale Order are on file in the office of the Trustee, the office of the Fiscal Agent and in the office of the City Treasurer.

Additional Bonds

Except as otherwise provided in the Act, the aggregate principal amount of Second Lien Bonds which may be issued under the Sale Order and secured thereby is not limited, and such Second Lien Bonds constitute or may constitute one or more Bonds in various principal amounts and of varying denominations, dates, maturities, interest rates and other provisions as provided in the Sale Order, including Bonds issued for the refunding of the Bonds or any other series of Second Lien Bonds prior to their respective maturities.

Subordinate Lien Obligations

The Sale Order permits the issuance, without limit or other restriction, of bonds, notes, certificates, warrants and other evidences of indebtedness payable from the assets pledged to secure the Second Lien Bonds on a junior and inferior basis to the pledge securing the Second Lien Bonds.

Amendment of Sale Order

The Sale Order contains provisions permitting the amendment thereof, which in certain cases do not require the consent of the Holders of Second Lien Bonds or, in the case of amendments to only second lien ordinances, the Holders of the Bonds. In certain instances, amendments are subject to the consent of providers of Credit Facilities (which includes a Liquidity Facility under the Sale Order).

Transfer

This bond is transferable as provided in the Sale Order, only upon the books of the City kept for that purpose by the Fiscal Agent as the Registrar and Transfer Agent under the Second Supplemental Indenture, by the Holder hereof in person or by his attorney duly authorized. The Fiscal Agent, the Trustee, the Remarketing Agent and the City may treat the Holder hereof as the absolute owner hereof for all purposes, whether or not this bond shall be overdue, and the Fiscal Agent, the Trustee, the Remarketing Agent and the City shall not be affected by any knowledge or notice to the contrary.

Anything herein to the contrary notwithstanding, so long as all the Bonds are held by The Depository Trust Company (DTC or its nominee Cede & Co. pursuant to a Letter of Representations among the City, DTC and the Trustee, as the same may be amended (the Letter of Representations), which was entered into to effect a Book-Entry System to evidence ownership and transfer of the Bonds, if any terms of the Bonds (other than the Principal Sum, Interest Rate, Maturity Date, Record Date or payment dates) are inconsistent with the terms of the Letter of Representations, then the terms of the Letter of Representations shall prevail. The right of DTC to discontinue providing services as Securities Depository, the right of the City to

discontinue the Book-Entry System with DTC and the terms and condition of the obligation of the City to deliver replacement bonds to the beneficial owners of the Bonds, are all set forth in the Letter of Representations, counterparts of which are on file with the Trustee and DTC.

This Bond is a self-liquidating bond and is not a general obligation of the City and does not constitute an indebtedness of the City within any constitutional, statutory or charter limitation, but is payable, both as to principal and interest solely from the Net Revenues of the System. The principal of and interest on this Bond are secured by the statutory first lien hereinbefore mentioned.

The City has covenanted and agreed, and hereby covenants and agrees, to fix and maintain at all times while any bonds payable from the Net Revenues of the System shall be outstanding, such rates for service furnished by the System as shall be sufficient to provide for payment of the interest upon and the principal of the Bonds of this issue and any other bonds of equal or junior standing payable from the Net Revenues as and when the same shall become due and payable, to create and maintain a bond redemption fund therefor, including a bond reserve, to provide for the payment of expenses of administration and operation and such expenses for maintenance of the System as are necessary to preserve the same in good repair and working order, and to provide for such other expenditures and funds for the System as are required by the Bond Ordinance.

This Bond is transferable only upon the books of the City kept for that purpose at the office of the Transfer Agent by the registered owner hereof in person, or by his attorney duly authorized in writing, upon the surrender of this Bond together with a written instrument of transfer satisfactory to the Transfer Agent duly executed by the registered owner or his attorney duly authorized in writing, and thereupon a new registered Bond or Bonds of the same type, in the same aggregate principal amount and of the same maturity shall be issued to the transferee in exchange therefor as provided in the Bond Ordinance and upon the payment of the charges, if any, therein prescribed.

It is hereby certified and recited that all acts, conditions and things required by law precedent to and in the issuance of this Bond and the series of Bonds of which this is one have been done and performed by regular and due time and form as required by law.

This Bond is not valid or obligatory for any purpose until the Transfer Agent's Certificate of Authentication on the Bond has been executed by the Transfer Agent.

IN WITNESS WHEREOF, the City Council of the City of Detroit, County of Wayne, State of Michigan, has caused this Bond to be signed in its name by the facsimile signatures of its Mayor and its Finance Director and a facsimile of its corporate seal to be printed hereon, all as of the Original Issue Date.

CITY OF DETROIT

(Seal)

By: _____
Mayor

Countersigned:

By: _____
Finance Director

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds described in the within-mentioned Bond Ordinance.

U.S. BANK TRUST NATIONAL ASSOCIATION,
Transfer Agent

By: _____

Date of Authentication: _____

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto _____ (Please print or typewrite name and address of transferee) the within bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____ attorney to transfer the within bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed: _____

NOTICE: The signature(s) to this assignment must correspond with the name as it appears upon the face of the within bond in every particular, without alteration or enlargement or any change whatever. When assignment is made by a guardian, trustee, executor or administrator, an officer of a corporation, or anyone in a representative capacity, proof of such person's authority to act must accompany the bond.

Signature(s) must be guaranteed by an eligible guarantor institution participating in a Securities Transfer Association recognized signature guarantee program. The Trustee will not effect transfer of this bond unless the information concerning the transferee requested below is provided.

PLEASE INSERT SOCIAL
SECURITY NUMBER OR OTHER
IDENTIFYING NUMBER OF
TRANSFeree.

Name and Address: _____

(Include information for all joint owners
if the bond is held by joint account.)

(Insert number for first named
transferee if held by joint account)

STATEMENT OF INSURANCE

Financial Guaranty Insurance Company ("Financial Guaranty") has issued a policy containing the following provisions with respect to City of Detroit Water Supply System Revenue Refunding Second Lien Bonds (Variable Rate Demand), Series 2001-C (the "Bonds"), such policy being on file at the principal office of U.S. Bank Trust National Association, as paying agent (the "Paying Agent"):

Financial Guaranty hereby unconditionally and irrevocably agrees to pay for disbursement to the Bondholders that portion of the principal of and interest on the Bonds which is then due for payment and which the issuer of the Bonds (the "Issuer") shall have failed to provide. Due for payment means, with respect to principal, the stated maturity date thereof, or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which the payment of principal of the Bonds is due by reason of call for redemption (other than mandatory sinking fund redemption), acceleration or other advancement of maturity, and with respect to interest, the stated date for payment of such interest.

Upon receipt of telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or the Paying Agent to Financial Guaranty that the required payment of principal or interest has not been made by the Issuer to the Paying Agent, Financial Guaranty on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), sufficient to make the portion of such payment not paid by the Issuer. Upon presentation to the Fiscal Agent of evidence satisfactory to it of the Bondholder's right to receive such payment and any appropriate instruments of assignment required to vest all of such Bondholder's right to such payment in Financial Guaranty, the Fiscal Agent will disburse such amount to the Bondholder.

As used herein the term "Bondholder" means the person other than the Issuer or the borrower(s) of bond proceeds who at the time of nonpayment of a Bond is entitled under the terms of such Bond to payment thereof.

The policy is non-cancelable for any reason.

FINANCIAL GUARANTY INSURANCE COMPANY

Principal Installment Dates and Maturities

1974114.0038.328331.djs.rsn-DET

Exh. 2.02(b) - Page 1

Sinking Fund Installments

The Bonds identified below are designated as Term Bonds. Sinking Fund Installments are hereby established for such Term Bonds, and, unless changed pursuant to *Section 2.03*, such Sinking Fund Installments shall become due and shall be applied to the redemption or payment at maturity of such Term Bonds on the dates and in the respective amounts shown below.

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Exh. 2.02(c) - Page 1

LIQUIDITY FACILITY REQUIREMENTS

1. **Credit Ratings:** The provider of a liquidity facility to be used to pay the purchase price of tendered variable rate bonds ("Bonds") shall be rated by both Moody's Investors Service ("Moody's") and Standard & Poor's Corporation ("S&P"), shall be of sufficient strength to cause the liquidity facility for the Bond issue to be rated at least A-1+ by S&P and at least VMIG-1 by Moody's and shall be approved by Financial Guaranty. Such ratings of the liquidity facility for the Bond issue must be obtained and paid for by the underwriter, issuer and/or the liquidity provider and will not be obtained or paid for by Financial Guaranty. The Policy will not be delivered until both such ratings have been released. Any provider whose ratings drop below A- or A3 shall be replaced at the request of Financial Guaranty.
2. **Initial Term of Liquidity Facility:** Initial term of five (5) years.
3. **Renewal of Liquidity Facility Beyond Initial Term:** Any renewal beyond the initial term shall be subject to the prior written consent of Financial Guaranty.
4. (a) **Events Permitting Termination by the Liquidity Provider Prior to the Stated Expiration Date of the Obligation to Purchase Bonds Without Offering Bondholders a Last Opportunity to Tender the Bonds to the Liquidity Provider for Purchase:** Such events shall be limited to the following:
 - (i) Policy Default. Failure by Financial Guaranty to pay principal and interest when, as and in the amounts required under the Policy, including interest at the "bank rate" due the liquidity provider on disbursements under the liquidity facility if such amount is included as interest on the Bonds under the terms of the Bonds;
 - (ii) Surety Bond Default as to Additional Interest.
 - (x) If the additional interest due the liquidity provider for amounts drawn under the liquidity facility is not, by the terms of the Bonds, included as interest on the Bonds,
 - (y) The issuer shall fail to pay the difference between (A) the amount received by the liquidity provider as interest on the Bonds held by it as a result of a payment made under the liquidity facility and (B) the amount of interest due the liquidity provider under the liquidity facility on account of such payment (which amount of interest shall not include "increased costs"), and

- (z) Such failure is covered by a Surety Bond issued by Financial Guaranty to the liquidity provider,*

failure by Financial Guaranty to pay such difference pursuant to its Surety Bond within five (5) business days following receipt of notice from the liquidity provider of nonpayment thereof by the issuer or by any other party obligated to pay such difference;

(iii) Surety Bond Default as to Certain Bank Fees.

- (x) If the issuer of the Bonds or other obligated party shall fail to pay when due the liquidity provider's commitment fee and any other liquidity provider fee the payment of which Financial Guaranty has agreed to insure through the issuance of a Surety Bond, and
- (y) Such failure is covered by a Surety Bond issued by Financial Guaranty to the liquidity provider,**

failure by Financial Guaranty to pay the same pursuant to the Surety Bond within five (5) business days following receipt of notice from the liquidity provider;

- (iv) Payment Default Under Other Insurance. Any default by Financial Guaranty in making payment when, as and in the amounts required to be made pursuant to the express terms and provisions of any other municipal bond insurance policy or surety bond issued by Financial Guaranty;
- (v) Nullity of Policy or Surety Bond. The Policy or the Surety Bond, if any, issued by Financial Guaranty to the liquidity provider for any reason ceases to be in full force and effect or is declared by a court of competent jurisdiction to be null and void, or Financial Guaranty denies that it has any further liability under the terms thereof; and
- (vi) Insolvency Proceeding Against FGIC. A proceeding has been instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect of Financial Guaranty under Article 74 of the Insurance Law of the State of New York or any successor provision thereto and such

* Such coverage is provided by Financial Guaranty, at the option of the liquidity provider, pursuant to a Surety Bond, with a maximum payment liability equal to the maximum amount payable to the liquidity provider during the term of the Surety Bond in respect of the fees and other amounts that are insured, subject to applicable statutory risk limits. A separate premium will be charged for the Surety Bond. If such coverage is not provided, failure of the issuer to pay such amounts may not result in termination of the purchase obligation of the liquidity provider.

** If the liquidity facility is in the form of the Credit Agreement described in 6(iii), Financial Guaranty shall receive an opinion of counsel to the debtor to the effect that the Credit Agreement has been duly authorized, executed and delivered by the debtor and constitutes a legal, valid and binding obligation of the debtor enforceable in accordance with its terms.

proceeding is not terminated for a period of 60 consecutive days or such court enters an order granting the relief sought in such proceeding.

- (b) **Events Permitting Termination by the Liquidity Provider Prior to the Stated Expiration Date of the Obligation to Purchase Bonds if the Liquidity Provider Agrees That All Bondholders Shall Have One Last Opportunity to Tender Their Bonds to the Provider for Purchase Prior to Termination.** Such events shall be limited to the following: the claims-paying rating assigned to Financial Guaranty or the rating assigned to securities insured by Financial Guaranty, as applicable, is withdrawn, suspended or reduced to "A" or below by any two of the following rating agencies: Standard & Poor's, Moody's or Fitch.

- (c) **Breaches by Issuer Do Not Permit Termination.** The only events permitting termination of the liquidity facility by the liquidity provider prior to its stated expiration date are as specified in 4(a) and 4(b) above. In particular, neither failure by the issuer to comply with any covenants made by it in the liquidity agreement nor breach by the issuer of any representation or warranty made by it in the liquidity agreement nor continuation of such failure or breach following receipt by the issuer of notice thereof is a permissible event of termination. The sole remedy allowed to the liquidity provider upon such an event of default shall be the ability to sue for specific performance.

- (d) **Events Permitting Acceleration by the Liquidity Provider.** Upon the occurrence of an event described in 4(a)(i), (ii), (iii), (iv), (v) or (vi), the liquidity provider may tender its Bonds to the issuer for immediate repurchase, and no limitations shall be imposed on the exercise by the liquidity provider of any remedies available to it against the issuer (e.g., causing the issuer to accelerate its loan to the ultimate borrower of Bond proceeds) should the issuer default on any such repurchase obligation to the liquidity provider.

5. **Permitted Conditions to Effectiveness of the Liquidity Agreement:**

- (a) With regard to Financial Guaranty, an opinion as to the matters set forth below may be required (Financial Guaranty will not provide a letter of representation):
- (i) Financial Guaranty is a stock insurance corporation validly existing and in good standing under the laws of the State of New York and qualified to do business therein and is licensed and authorized to issue the Policy under the laws of [state of issuance of the Policy] and the Surety Bond under the laws of the State of New York.
 - (ii) The Policy and the Surety Bond are valid and binding upon Financial Guaranty and enforceable in accordance with their respective terms, subject to applicable laws affecting creditors' rights generally.

- (iii) Financial Guaranty, as an insurance company, is not eligible for relief under the Federal Bankruptcy Laws. Any proceedings for the liquidation, conservation or rehabilitation of Financial Guaranty would be governed by the provisions of the Insurance Law of the State of New York.
 - (iv) The statements in the Official Statement relating to Financial Guaranty, the Policy and the Surety Bond accurately and fairly present the summary information set forth therein and do not omit any material fact with respect to the description of Financial Guaranty relative to the material terms of the Policy and the Surety Bond, respectively, or the ability of Financial Guaranty to meet its obligations under the Policy and the Surety Bond.
 - (b) Financial Guaranty shall require as a condition to the issuance of the Policy and Surety Bond an opinion of counsel to the liquidity provider regarding, as to the liquidity provider, the matters set forth in (i) above. Such opinion shall be addressed to Financial Guaranty or Financial Guaranty shall receive a reliance letter with respect thereto.
6. **Form of Liquidity Facility:** (i) Letter of Credit, (ii) Bond Purchase Agreement or (iii) Credit Agreement with single purpose bankruptcy-proof corporation, or the Trustee, as debtor.*
7. **Increased Costs; Parity Payments:** The liquidity provider may charge "increased costs" to the issuer pursuant to a provision, to be inserted in the liquidity facility agreement, substantially in the form attached hereto as Appendix A. The liquidity facility agreement shall provide that only the following amounts are payable on a parity with principal and interest on the Bonds: (i) the liquidity provider's periodic commitment fee, (ii) interest on the Bonds held by the liquidity provider calculated at the "bank rate" and (iii) the interest due on amounts drawn under the liquidity facility to the extent the same is not included as interest borne by the Bonds and is covered by a Surety Bond issued by Financial Guaranty to the liquidity provider. All other amounts (e.g., "increased obligation of the debtor enforceable in accordance with its terms costs," uninsured "claw-back" amount, penalty interest charges and indemnification amounts) shall be payable on a subordinated basis to payment of principal and interest on the Bonds, replenishment of any debt service reserve fund and payment of the fees of the Trustee, and both the liquidity facility agreement and the Bond trust indenture or Bond resolution shall specifically so provide.
8. **Notice by Liquidity Provider of Termination:** The liquidity provider shall be required to give not less than two years' notice prior to the expiration date of the liquidity facility of its intention not to renew or extend the liquidity facility. Early termination pursuant to paragraph 4(a) above requires no prior notice. Early

* If the liquidity facility is in the form of the Credit Agreement described in 6(iii), Financial Guaranty shall receive an opinion of counsel to the debtor to the effect that the Credit Agreement has been duly authorized, executed and delivered by the debtor and constitutes a legal, valid and binding obligation of the debtor enforceable in accordance with its terms.

termination pursuant to paragraph 4(b) above requires 45 days' prior notice by the liquidity provider to the Trustee (in order to permit timely notification by the Trustee to Bondholders of their right to tender their Bonds to the liquidity facility). Upon the earlier of notice to the Trustee (where required) of nonrenewal or termination and the termination of the facility, a best efforts attempt will be made by the issuer to find a substitute liquidity facility. If, by one year prior to the expiration date of the liquidity facility, a substitute liquidity facility satisfactory to Financial Guaranty has not been executed and delivered and has not obtained the requisite ratings from S&P and Moody's, the Trustee shall so notify Financial Guaranty and, within 365 days prior to the termination of the liquidity facility, the Trustee shall, in each case of nonrenewal or termination that requires notice to the Trustee, mail a notice to each bondholder informing him of the date of termination of the liquidity facility and that unless such bondholder desires to retain his Bonds despite the absence of a liquidity facility, such Bonds shall be deemed tendered for payment.

9. **Take-Out of Liquidity Provider Through Mandatory Conversion to a Fixed Rate:** On or as soon as practicable after the termination date of the liquidity facility, in the case of a termination pursuant to paragraph 4(a) or 4(b), and 365 days prior to the termination or expiration date of the liquidity facility, in the case of all other terminations or nonrenewals where a substitute liquidity facility satisfactory to Financial Guaranty has not been executed and delivered and has not obtained the requisite ratings from Moody's and S&P at or prior to such time, the Trustee shall commence the process required by the bond trust indenture to effect the mandatory conversion of the interest rate on the Bonds to a fixed rate sufficient to accomplish the complete remarketing at par of all Bonds then held by the liquidity provider. A fixed rate conversion shall be deemed feasible if the fixed rate required in order to accomplish conversion of all the Bonds does not exceed (i) the prevailing rate borne by United States Treasury obligations with a comparable maturity of (ii) if the liquidity has expired or terminated or will expire or terminate in six months or less, the applicable legal limit. If such a remarketing cannot be effected at any fixed rate, the Bonds shall continue to bear interest the variable rate and the remarketing agent shall attempt at least weekly to convert the Bonds to a fixed interest rate sufficient to effect the remarketing at par of all Bonds then held by the liquidity provider.
10. **Take-Out of Liquidity Provider by the Issuer:** Subsequent to the termination of the liquidity facility, the liquidity provider shall not be permitted to put to the issuer Bonds that have not been remarketed and shall be required to continue to hold Bonds not remarketed for a period determined in accordance with the following formula:

$$10 \text{ years} - \text{LFT} = \text{HP}$$

where LFT = the liquidity term (in years, measured from the beginning of the liquidity facility), and

HP = holding period,

except that a six month holding period is required with respect to a liquidity facility having a liquidity term equal to or in excess of ten years.

At the end of the required holding period, the liquidity provider may tender the Bonds to the issuer for immediate repurchase, and no limitations shall be imposed on the exercise by the liquidity provider of any remedies available to it against the issuer (e.g., causing the issuer to accelerate its loan to the ultimate borrower of Bond proceeds) should the issuer default on any such repurchase obligation to the liquidity provider. Regardless of whether or not the underlying loan is caused to be accelerated as a result of any such default by the issuer, Financial Guaranty shall pay only principal and interest on the Bonds as scheduled, in accordance with the terms of the Policy.

In the event of a termination of the facility pursuant to 4(b) hereof, the holding period shall be equal to one year, at which time the provider shall have the remedies described above. In the event of a termination of the facility pursuant to 4(a) hereof, no holding period is required.

11. **Maximum Bond and Bank Rates:** The maximum rate payable for any interest payment period on the Bonds, whether or not held by or pledged to the liquidity provider at such time, shall be the lesser of 25% per annum and the maximum rate permitted by applicable law (the "Cap Rate").

APPENDIX A

SECTION _____. Increased Costs. If any change in any law or regulation or in the interpretation thereof by any court or administrative or governmental authority charged with the administration thereof shall impose, increase or deem applicable any reserve, special deposit or similar requirement against the obligations of the Bank or any Participant hereunder (other than as a result of the acts, omissions or financial condition of the Bank or such Participant) and the result of any such event above shall be to increase the cost to the Bank or such Participant of its obligations hereunder (which increase in cost shall be the result of the Bank's or such Participant's pro rata allocation of the aggregate of such cost increases resulting from such events), then, upon written demand by the Bank to the Issuer, the Issuer shall pay to the Bank within forty-five (45) days of such demand, the amount of such increased costs from the date of such change. A certificate of the Bank setting forth in reasonable detail such increased costs as a result of any such event, submitted by the Bank to the Trustee and the Issuer, shall be conclusive, absent manifest error, as to the amount thereof. The Bank shall notify the Issuer of any such impending or announced change in law, regulation or interpretation promptly upon receipt by it of actual notice of such change.

If the demand by the Bank for the payment of increased costs is due primarily to the effect of the events set forth above on a particular Participant, or set of Participants, and not on the Bank, then the Bank shall use its reasonable best efforts to replace such Participant or Participants with other Participants on whom the effect of such events are not more adverse than on the Bank. The failure of the Bank so to replace such Participant or Participants shall not in any manner relieve the Issuer or the Bank of their obligations under this Agreement.

The Bank agrees that the obligation of the Issuer to make payment to the Bank of the amounts described in this Section is subordinate to the obligation of the Issuer to make payment of principal of and interest on the Bonds, to restore, to the extent necessary, any amounts withdrawn from the Debt Service Reserve Fund and to pay the fees of the Trustee.

SWAP PROVIDER GUIDELINES

Any Swap entered into in connection with the issuance or incurrence by the Issuer of variable rate indebtedness secured with the Bonds by a parity lien on Net Revenues shall meet the following guidelines and, for purposes of calculating "Debt Service" and establishing compliance with financial covenants under the Authorizing Document shall be treated as follows:

A. Long - Dated Swaps - Term or Weighted Average Maturity of Ten Years or More.

1. The Swap provider must be rated at least A-/A3 or better by Standard & Poor's and Moody's (the "Initial Rating Requirement").
2. Assuming satisfaction of the Initial Rating Requirement, and thereafter as long as the long term indebtedness of the Swap provider or the claims paying ability of the Swap provider does not fall below Baa2 or BBB by either Standard & Poor's or Moody's (the "Minimum Rating Requirement"), all interest rate assumptions for purposes of establishing or demonstrating compliance with a financial covenant (e.g., rate covenant, reserve requirement, additional bonds test, asset transfer test, etc.) may be based upon the synthetic fixed interest rate under the Swap.

Failure to maintain a Swap provider holding the Minimum Rating Requirement or, if the issuer elects, failure to replace any such Swap provider by another Swap provider which holds the Initial Rating Requirement within ten business days, will have the following effects: (1) compliance with any required rate covenant for the preceding Fiscal Year will be based on the actual interest paid on the Variable Rate Indebtedness during such Fiscal Year without regard to the Swap; (2) in the case of any required debt service reserve fund, the amount required to be on deposit therein will be re-calculated based on the formula described in Section 7(a) of the exhibit entitled "Bond Insurer Requirements," calculated as of the date of original issuance of the variable rate indebtedness and any resulting deficiency will be restored within the same one year restoration period established in the bond documentation for curing Debt Service Reserve Fund deficiencies; and (3) any "forward-looking" financial covenant based upon "Debt Service", "Annual Debt Service" or "Maximum Annual Debt Service" will be based upon the formula described in Section 7(a) of the exhibit entitled "Bond Insurer Requirements," calculated as of the date the required calculation is made.

B. Short Dated Swaps Having Terms or Weighted Average Maturities of Ten Years or Less, Whereupon Related Bonds Automatically Convert to a Pre-Set Fixed Rate.

The embedded Swap provider must meet the Initial Rating Requirement. With respect to financial covenants, the synthetic fixed rate based on the Swap may be utilized for purposes of demonstrating or establishing compliance with the applicable covenant. Failure to maintain a Swap provider holding the Minimum Rating Requirement during the embedded Swap period will require replacement of the Swap provider within ten business days. Failure to replace will require re-calculation of the applicable financial covenants in the manner outlined in A.2 above.

BOND INSURER REQUIREMENTS

1. Redemption Notices

- (a) Notice of any redemption of Bonds shall either (i) explicitly state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on the redemption date sufficient money to pay the full redemption price of the Bonds to be redeemed, or (ii) be sent only if sufficient money to pay the full redemption price of the Bonds to be redeemed is on deposit in the applicable fund or account.

2. Default-Related Provisions

- (a) The Trustee shall, to the extent there are no other available funds held under the Ordinance or Bond Resolution, use the remaining funds in the construction fund to pay principal of or interest on the Bonds in the event of a payment default.
- (b) In determining whether a payment default has occurred or whether a payment on the Bonds has been made under the Ordinance or Bond Resolution, no effect shall be given to payments made under the Bond Insurance Policy.
- (c) Any acceleration of the Bonds or any annulment thereof shall be subject to the prior written consent of the Bond Insurer (if it has not failed to comply with its payment obligations under the Bond Insurance Policy).
- (d) The Bond Insurer shall receive immediate notice of any payment default and notice of any other default known to the Trustee or the Issuer within 30 days of the Trustee's or the Issuer's knowledge thereof.
- (e) For all purposes of the Ordinance or Bond Resolution provisions governing events of default and remedies, except the giving of notice of default to Bondholders, the Bond Insurer shall be deemed to be the sole holder of the Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy.
- (f) The Bond Insurer shall be included as a party in interest and as a party entitled to (i) notify the Issuer, the Trustee, if any, or any applicable receiver of the occurrence of an event of default and (ii) request the Trustee or receiver to intervene in judicial proceedings that affect the Bonds or the security therefor. The Trustee or receiver shall be required to accept notice of default from the Bond Insurer.
- (g) If, on the third day preceding any interest payment date for the Bonds there is not on deposit with the Transfer Agent sufficient moneys available to pay all principal of and interest on the Bonds due on such date, the

Transfer Agent shall immediately notify the Bond Insurer and State Street Bank and Trust Company, N.A., New York, New York or its successor as its Fiscal Agent (the "Fiscal Agent") of the amount of such deficiency. If, by said interest payment date, the Issuer has not provided the amount of such deficiency, the Transfer Agent shall simultaneously make available to the Bond Insurer and to the Fiscal Agent the registration books for the Bonds maintained by the Transfer Agent. In addition:

- (i) The Transfer Agent shall provide the Bond Insurer with a list of the Bondholders entitled to receive principal or interest payments from the Bond Insurer under the terms of the Bond Insurance Policy and shall make arrangements for the Bond Insurer and its Fiscal Agent (1) to mail checks or drafts to Bondholders entitled to receive full or partial interest payments from the Bond Insurer and (2) to pay principal of the Bonds surrendered to the Fiscal Agent by the Bondholders entitled to receive full or partial principal payments from the Bond Insurer; and
- (ii) The Transfer Agent shall, at the time it makes the registration books available to the Bond Insurer pursuant to (A) above, notify Bondholders entitled to receive the payment of principal of or interest on the Bonds from the Bond Insurer (1) as to the fact of such entitlement, (2) that the Bond Insurer will remit to them all or part of the interest payments coming due subject to the terms of the Bond Insurance Policy, (3) that, except as provided in paragraph (ii) below, in the event that any Bondholder is entitled to receive full payment of principal from the Bond Insurer, such Bondholder must tender his Bond with the instrument of transfer in the form provided on the Bond executed in the name of the Bond Insurer, and (4) that, except as provided in paragraph (ii) below, in the event that such Bondholder is entitled to receive partial payment of principal from the Bond Insurer, such Bondholder must tender his Bond for payment first to the Transfer Agent, which shall note on such Bond the portion of principal paid by the Transfer Agent, and then, with an acceptable form of assignment executed in the name of the Bond Insurer, to the Fiscal Agent, which will then pay the unpaid portion of principal to the Bondholder subject to the terms of the Bond Insurance Policy.
- (h) In the event that the Transfer Agent has notice that any payment of principal of or interest on a Bond has been recovered from a Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time it provides notice to the Bond Insurer, notify all Bondholders that in the event that any Bondholder's payment is so recovered, such Bondholder will be entitled to payment from the Bond Insurer to the extent of such recovery, and the Transfer Agent shall furnish to the Bond Insurer its records evidencing the payments of principal of and interest on the Bonds which have been made by the Transfer Agent and subsequently recovered from Bondholders, and the dates on which such payments were made.

- (i) The Bond Insurer shall, to the extent it makes payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy and, to evidence such subrogation, (A) in the case of subrogation as to claims for past due interest, the Transfer Agent shall note the Bond Insurer's rights as subrogee on the registration books maintained by the Transfer Agent upon receipt from the Bond Insurer of proof of the payment of interest thereon to the Bondholders of such Bonds and (B) in the case of subrogation as to claims for past due principal, the Transfer Agent shall note the Bond Insurer's rights as subrogee on the registration books for the Bonds maintained by the Transfer Agent upon receipt of proof of the payment of principal thereof to the Bondholders of such Bonds. Notwithstanding anything in the Ordinance or Bond Resolution or the Bonds to the contrary, the Transfer Agent shall make payment of such past due interest and past due principal directly to the Bond Insurer to the extent that the Bond Insurer is a subrogee with respect thereto.

3. Amendments and Supplements

- (a) Any amendment or supplement to the Ordinance or Bond Resolution or any other principal financing documents shall be subject to the prior written consent of the Bond Insurer. Any rating agency rating the Bonds must receive notice of each amendment and a copy thereof at least 15 days in advance of its execution or adoption. The Bond Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

4. Defeasance Provisions

- (a) Only cash, direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, Refcorp interest strips, CATS, TIGRS, STRPS, or defeased municipal bonds rated AAA by S&P or Aaa by Moody's (or any combination of the foregoing) shall be used to effect defeasance of the Bonds unless the Bond Insurer otherwise approves. In the event of an advance refunding, the Issuer shall cause to be delivered a verification report of an independent nationally recognized certified public accountant. If a forward supply contract is employed in connection with the refunding, (i) such verification report shall expressly state that the adequacy of the escrow to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement (or the authorizing document, if no separate escrow agreement is utilized), the terms of the escrow agreement or authorizing document, if applicable, shall be controlling.

5. Variable Rate Indebtedness

- (a) For all purposes, variable rate indebtedness shall be assumed to bear interest at the highest of: (i) the actual rate on the date of calculation, or if the indebtedness is not yet outstanding, the initial rate (if established and binding), (ii) if the indebtedness has been outstanding for at least twelve months, 125% of the average daily rate over the twelve months immediately preceding the date of calculation.
- (b) In the case of variable rate issues in which financial covenants are based on the synthetic fixed rate under a swap, utilization of the synthetic fixed rate under a Swap for purposes of performing any required calculations under the applicable legal documentation shall be permitted only if such documentation and the applicable Swap satisfy the requirements of the exhibit attached hereto entitled "Swap Provider Guidelines."

6. Reporting Requirements

- (a) The Bond Insurer shall be provided with the following information:
 - (i) Within 120 days after the end of each of the Issuer's, and, if applicable, the Borrower's, fiscal years, the budget for the succeeding year, the annual audited financial statements, a statement of the amount on deposit in the debt service reserve fund as of the last valuation, and, if not presented in the audited financial statements, a statement of the revenues pledged to payment of Bonds in each such fiscal year;
 - (ii) The official statement or other disclosure document, if any, prepared in connection with the issuance of additional debt, whether or not on parity with the Bonds within 30 days after the sale thereof;
 - (iii) Notice of any drawing upon or deficiency due to market fluctuation in the amount, if any, on deposit, in the debt service reserve fund;
 - (iv) Notice of the redemption, other than mandatory sinking fund redemption, of any of the Bonds, or of any advance refunding of the Bonds, including the principal amount, maturities and CUSIP numbers thereof;
 - (v) Simultaneously with the delivery of the annual audited financial statements, a statement of:
 - (A) The number of system users as of the end of the fiscal year;
 - (B) Notification of the withdrawal of any system user comprising 5% or more of system sales measured in terms of revenue dollars since the last reporting date;
 - (C) Any significant plant retirements or expansions planned or undertaken since the last reporting date;

- (D) Maximum and average daily usage for the fiscal year;
 - (E) Updated capital plans for expansion and improvement projects; and
 - (F) Results of annual engineering inspections, if any, occurring at the end of the fiscal year; and
- (vi) Such additional information as the Bond Insurer may reasonably request from time to time.

7. Payments Unconditional

- (a) In the case of bond issues payable from amounts received under a loan agreement, lease, or other payment contract ("Payment Agreement"), the payment obligations under said Payment Agreement shall be absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever.

8. Notice Addresses

- (a) The notice addresses for the Bond Insurer and the Fiscal Agent shall be included in the authorizing document as follows: Financial Guaranty Insurance Company, 115 Broadway, New York, New York 10006, Attention: Risk Management; and State Street Bank and Trust Company, N.A., 61 Broadway, New York, New York 10006, Attention: Corporate Trust Department.

9. Pledge, Rate Covenant, Additional Bonds Test

- (a) The definition of "revenues" or "pledged revenues" shall include all revenues generated by the enterprise. The definition must exclude non-recurring revenues such as grants. Rate stabilization funds and prior year surpluses may be incorporated into the definition of "revenues" or "pledged revenues" but, as noted in (c) below, all non-recurring revenues will be limited or subject to a cap in the required computation of revenues for purposes of determining compliance with the rate covenant.
- (b) Either a "net" or "gross" revenue pledge may be specified, however, a "net" pledge is preferred. Net revenues shall be defined as gross revenues less operating expenses. Operating expenses shall reflect all operating and maintenance expenses related to the operations of the water supply system, excluding depreciation.
- (c) Net revenues in each fiscal year shall provide coverage at least equal to 110% of annual debt service requirements on all outstanding long term indebtedness, including the Bonds. If rate stabilization funds and prior year surpluses are included in the definition of revenues, then their inclusion in the required computation of "revenues" shall be limited to demonstrating satisfaction only of that portion of the required coverage ratio which exceeds 100% (e.g., 10% in the case of the 110% rate covenant). In this situation, recurring operating revenues less operating expenses (excluding all rate stabilization fund transfers and prior year

surpluses) must provide coverage at least equal to 100% of annual debt service requirements for all outstanding long term indebtedness, including the Bonds.

- (d) Completion bonds to complete the project financed by the Bonds may be issued without meeting the foregoing tests in an amount not to exceed 15% of the original principal amount of Bonds originally issued for the related project.

10. Reserve Fund Requirements

The Issuer may satisfy the requirement (the "Reserve Fund Requirement"), to deposit a specified amount in the debt service reserve fund (the "Reserve Fund"), if any, by the deposit of a surety bond, insurance policy or letter of credit as set forth below. The following requirements are hereby incorporated in the authorizing document for the Bonds (the "Authorizing Document") in the event the Reserve Fund Requirement is fulfilled by a deposit of a credit instrument (other than a credit instrument issued by Financial Guaranty) in lieu of cash:

- (a) A surety bond or insurance policy issued to the entity serving as trustee or paying agent (the "Fiduciary"), as agent of the bondholders, by a company licensed to issue an insurance policy guaranteeing the timely payment of debt service on the Bonds (a "municipal bond insurer") may be deposited in the Reserve Fund to meet the Reserve Fund Requirement if the claims paying ability of the issuer thereof shall be rated "AAA" or "Aaa" by S&P or Moody's, respectively.
- (b) A surety bond or insurance policy issued to the Fiduciary, as agent of the bondholders, by an entity other than a municipal bond insurer may be deposited in the Reserve Fund to meet the Reserve Fund Requirement if the form and substance of such instrument and the issuer thereof shall be approved by Financial Guaranty.
- (c) An unconditional irrevocable letter of credit issued to the Fiduciary, as agent of the bondholders, by a bank may be deposited in the Reserve Fund to meet the Reserve Fund Requirement if the issuer thereof is rated at least "AA" by S&P. The letter of credit shall be payable in one or more draws upon presentation by the beneficiary of a sight draft accompanied by its certificate that it then holds insufficient funds to make a required payment of principal or interest on the bonds. The draws shall be payable within two days of presentation of the sight draft. The letter of credit shall be for a term of not less than three years. The issuer of the letter of credit shall be required to notify the Issuer and the Fiduciary, not later than 30 months prior to the stated expiration date of the letter of credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date.
- (d) If such notice indicates that the expiration date shall not be extended, the Issuer shall deposit in the Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund together with any other qualifying credit instruments, to equal the Reserve Fund Requirement on all outstanding Bonds, such deposit to be paid in equal installments on at least a semi-annual basis over the remaining

term of the letter of credit, unless the Reserve Fund credit instrument is replaced by a Reserve Fund credit instrument meeting the requirements in any of subparagraphs (a)–(c) above. The letter of credit shall permit a draw in full not less than two weeks prior to the expiration or termination of such letter of credit if the letter of credit has not been replaced or renewed. The Authorizing Document shall, in turn, direct the Fiduciary to draw upon the letter of credit prior to its expiration or termination unless an acceptable replacement is in place or the Reserve Fund is fully funded in its required amount.

- (e) The use of any Reserve Fund credit instrument pursuant to this Paragraph shall be subject to receipt of an opinion of counsel acceptable to Financial Guaranty and in form and substance satisfactory to Financial Guaranty as to the due authorization, execution, delivery and enforceability of such instrument in accordance with its terms, subject to applicable laws affecting creditors' rights generally, and, in the event the issuer of such credit instrument is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to Financial Guaranty. In addition, the use of an irrevocable letter of credit shall be subject to receipt of an opinion of counsel acceptable to Financial Guaranty and in form and substance satisfactory to Financial Guaranty to the effect that payments under such letter of credit would not constitute avoidable preferences under Section 547 of the U.S. Bankruptcy Code or similar state laws with avoidable preference provisions in the event of the filing of a petition for relief under the U.S. Bankruptcy Code or similar state laws by or against the issuer of the bonds (or any other account party under the letter of credit).
- (f) The obligation to reimburse the issuer of a Reserve Fund credit instrument for any fees, expenses, claims or draws upon such Reserve Fund credit instrument shall be subordinate to the payment of debt service on the bonds. The right of the issuer of a Reserve Fund credit instrument to payment or reimbursement of its fees and expenses shall be subordinated to cash replenishment of the Reserve Fund, and, subject to the second succeeding sentence, its right to reimbursement for claims or draws shall be on a parity with the cash replenishment of the Reserve Fund. The Reserve Fund credit instrument shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Reserve Fund credit instrument to reimbursement will be further subordinated to cash replenishment of the Reserve Fund to an amount equal to the difference between the full original amount available under the Reserve Fund credit instrument and the amount then available for further draws or claims. If (a) the issuer of a Reserve Fund credit instrument becomes insolvent or (b) the issuer of a Reserve Fund credit instrument defaults in its payment obligations thereunder or (c) the claims-paying ability of the issuer of the insurance policy or surety bond falls below a S&P "AAA" or a Moody's "Aaa" or (d) the rating of the issuer of the letter of credit falls below a S&P "AA", the obligation to reimburse the issuer of the Reserve Fund credit instrument shall be subordinate to the cash replenishment of the Reserve Fund.
- (g) If (a) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated or (b) the rating of the claims

paying ability of the issuer of the surety bond or insurance policy falls below a S&P "AAA" or a Moody's "Aaa" or (c) the rating of the issuer of the letter of credit falls below a S&P "AA", the Issuer shall either (i) deposit into the Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund to equal the Reserve Fund Requirement on all outstanding Bonds, such amount to be paid over the ensuing five years in equal installments deposited at least semi-annually or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of subparagraphs (a)–(c) above within six months of such occurrence. In the event (a) the rating of the claims-paying ability of the issuer of the surety bond or insurance policy falls below "A" or (b) the rating of the issuer of the letter of credit falls below "A" or (c) the issuer of the Reserve Fund credit instrument defaults in its payment obligations or (d) the issuer of the Reserve Fund credit instrument becomes insolvent, the Issuer shall either (i) deposit into the Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund to equal to Reserve Fund Requirement on all outstanding Bonds, such amount to be paid over the ensuing year in equal installments on at least a monthly basis or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of subparagraphs (a)–(c) above within six months of such occurrence.

- (h) Where applicable, the amount available for draws or claims under the Reserve Fund credit instrument may be reduced by the amount of cash or permitted investments deposited in the Reserve Fund pursuant to clause (i) of the preceding subparagraph g.
- (i) If the Issuer chooses the above described alternatives to a cash-funded Reserve Fund, any amounts owed by the Issuer to the issuer of such credit instrument as a result of a draw thereon or a claim thereunder, as appropriate, shall be included in any calculation of debt service requirements required to be made pursuant to the Authorizing Document for any purpose, e.g., rate covenant or additional bonds test.
- (j) The Authorizing Document shall require the Fiduciary to ascertain the necessity for a claim or draw upon the Reserve Fund credit instrument and to provide notice to the issuer of the Reserve Fund credit instrument in accordance with its terms not later than three days (or such longer period as may be necessary depending on the permitted time period for honoring a draw under the Reserve Fund credit instrument) prior to each interest payment date.
- (k) Cash on deposit in the Reserve Fund shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as required) prior to any drawing on any Reserve Fund credit instrument. If and to the extent that more than one Reserve Fund credit instrument is deposited in the Reserve Fund, drawings thereunder and repayments of costs associated therewith shall be made on a pro rata basis, calculated by reference to the maximum amounts available thereunder.

**AMENDMENT NO. 1 TO VARIABLE RATE DEMAND BONDS
SUPPLEMENT AND AGREEMENT**

Whereas, the parties hereto entered into the Variable Rate Demand Bonds Supplement and Agreement, dated as of May 31, 2001 (the "Supplement") in connection with the issuance by the City of Detroit (the "City") of \$192,290,000 Water Supply System Revenue Refunding Second Lien Bonds (Variable Rate Demand), Series 2001-C (the "Bonds");

Whereas, the Liquidity Facility entered into in connection with the Bonds is expiring and the City is in the process of obtaining a Substitute Liquidity Facility;

Whereas, in the process of obtaining the Substitute Liquidity Facility, a Rating Agency requested that the Supplement be amended as herein provided in order to maintain the rating on the Bonds;

Whereas, the Supplement makes provision for the amendment thereof provided that certain conditions have been met.

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. Amendment to Section 8.04, Substitution of Financial Facilities. Section 8.04(b)(2) is hereby amended to state as follows:

The City shall not execute any Substitute Financial Facility *unless*:

(2) the City has obtained, as applicable:

(i) in the case of a Substitute Liquidity Facility, the consent of the Provider of any Bond Insurance or Credit Facility covering Bonds that are also the subject of such Substitute Liquidity Facility or

(ii) in the case of Substitute Bond Insurance or Credit Facility, the consent of the Provider of any Liquidity Facility covering Bonds that are also the subject of such Substitute Bond Insurance or Credit Facility; and

2. Consent to Amendment Required.

(a) As provided in Section 11.02 of the Supplement, the consent of each Provider, the Bond Insurer, and the Remarketing Agent shall be obtained to this amendment.

(b) In order to obtain Bondholder consent to this amendment, this amendment shall be disclosed in the Remarketing Circular for the Bonds, dated the date hereof.

ACCEPTED AND AGREED AS OF JUNE 5, 2006:

FINANCIAL GUARANTY INSURANCE COMPANY,
As Bond Insurer

By:

A handwritten signature in black ink, appearing to be "M. J. [unclear]", written over a horizontal line.

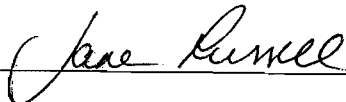
Its: Managing Director

ACCEPTED AND AGREED AS OF JUNE 5, 2006:

DEPFA BANK PLC, NEW YORK BRANCH,
As Provider

By: 

Its: David D. Park
Managing Director

By: 

Its: Jane Russell
Director

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(c) Rating Agency waiver of 15 days notice may be sought in lieu of making this amendment effective 15 days after notice thereof is sent to Rating Agencies. If such waiver is not obtained, this amendment shall become effective 15 days after notice thereof is sent to the Rating Agencies, which notice shall be sent on the date of this Amendment No. 1 set forth below.

3. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in the Supplement.

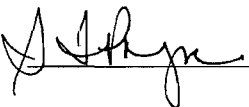
4. Counterparts. This Amendment No. 1 may be signed in counterparts, all of which, taken together, shall constitute a single document.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 1 to Variable Rate Demand Bonds Supplement and Agreement as of the 5th day of June, 2006.

CITY OF DETROIT

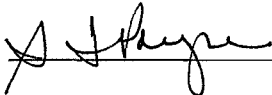
By: _____
Roger Short, Interim Finance Director

U.S. BANK NATIONAL ASSOCIATION,
As Trustee and Transfer Agent

By:  _____

Its: _____

U.S. BANK NATIONAL ASSOCIATION,
As Tender Agent

By:  _____

Its: _____

(c) Rating Agency waiver of 15 days notice may be sought in lieu of making this amendment effective 15 days after notice thereof is sent to Rating Agencies. If such waiver is not obtained, this amendment shall become effective 15 days after notice thereof is sent to the Rating Agencies, which notice shall be sent on the date of this Amendment No. 1 set forth below.

3. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in the Supplement.

4. Counterparts. This Amendment No. 1 may be signed in counterparts, all of which, taken together, shall constitute a single document.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 1 to Variable Rate Demand Bonds Supplement and Agreement as of the 5th day of June, 2006.

CITY OF DETROIT

By: 

Roger Short, Interim Finance Director

U.S. BANK NATIONAL ASSOCIATION,
As Trustee and Transfer Agent

By: _____

Its: _____

U.S. BANK NATIONAL ASSOCIATION,
As Tender Agent

By: _____

Its: _____

ACCEPTED AND AGREED AS OF JUNE 5, 2006:

GOLDMAN, SACHS & CO.,
As Remarketing Agent

Goldman Sachs & Co.

Exhibit 7

**Sale Order of Finance Director of the City of Detroit
with respect to
\$195,000,000
City of Detroit Water Supply System
Revenue Senior Lien Bonds
(Variable Rate Demand),
Series 2005-B**

Whereas, on January 26, 2005 the City Council (the "City Council") of the City of Detroit (the "City") adopted an amended and restated resolution captioned in relevant part "Amended and Restated Resolution Authorizing the Issuance and Sale of Water Supply System Revenue and Revenue Refunding Bonds of the City of Detroit of Equal Standing with the City's Senior Lien Water Supply System Revenue Bonds and Water Supply System Revenue Refunding Bonds Now Outstanding and Which May Remain Outstanding, and Authorizing the Issuance and Sale of Water Supply System Revenue and Revenue Refunding Bonds of the City of Detroit of Junior Standing to the City's Senior Lien Water Supply System Revenue Bonds and Water Supply System Senior Lien Revenue Refunding Bonds Now Outstanding and Which Remain Outstanding..." (the "Bond Resolution"), pursuant to the provisions of Ordinance No. 01-05 adopted by the City Council on January 26, 2005 (the "Ordinance"), and Act 94, Public Acts of Michigan, 1933, as amended; and

Whereas, under the provisions of the Bond Resolution, the City is authorized to sell and deliver one or more Series of Series 2005 Securities in series pursuant to one or more orders of the Finance Director of the City (each, a "Sale Order") in an aggregate principal amount not to exceed \$583,775,000, within the parameters established by the Bond Resolution; and

Whereas, the City desires to issue three Series of Series 2005 Senior Lien Bonds under the Bond Resolution, including one Series of 2005 Senior Lien Project Bonds designated as Water Supply System Revenue Senior Lien Bonds (Variable Rate Demand), Series 2005-B (the "Series 2005-B Bonds") for the purpose of paying a portion of the costs of the Project; and

Whereas, the Bond Resolution authorizes the Finance Director, among other things, to determine and establish the aggregate principal amount, purchase price, interest rates and maturities for the Series 2005-B Bonds, the designations and types of Series 2005-B Bonds to be issued, the dates for payment of principal of, premium, if any, and interest on the Series 2005-B Bonds, the Mandatory Redemption Requirements and other redemption provisions for the Series 2005-B Bonds, and make such other determinations with respect to the Series 2005-B Bonds as confirmed in this Sale Order; and

Whereas, the City intends to relate the Transaction dated January 29, 2004 pursuant to the ISDA Master Agreement dated as of May 22, 2003 (Water System Transactions), as amended and supplemented, between the City and Morgan Stanley Capital Services Inc. (the "Morgan Stanley Swap Agreement") to the Series 2005-B Bonds; and

Whereas, pursuant to the terms of the Bond Resolution the City intends to obtain a policy of municipal bond insurance to insure payment of the principal of and interest on the Series 2005-B Bonds when due and a Liquidity Facility to provide for the payment of the

purchase price of 2005-B Bonds tendered for purchase but not remarketed, and to pay a portion of the cost to obtain a Credit Facility to fund the Reserve Requirement in respect of the Series 2005-B Bonds; and

Whereas, the City desires to sell the Series 2005-B Bonds to the purchasers thereof pursuant to a bond purchase agreement between the City and such purchasers of even date herewith, in the amounts, at the prices, with the interest rates and other terms, specified in the Bond Resolution and in this Sale Order.

Now, Therefore, the Finance Director of the City of Detroit hereby orders on behalf of the City as follows:

ARTICLE I AUTHORITY AND DEFINITIONS

Section 101. Authority. This Sale Order of the Finance Director authorizing the sale and delivery of the City's Series 2005-B Bonds is issued in accordance with the provisions of the Bond Resolution. This Sale Order shall include a Variable Rate Mode and Auction Rate Mode Supplement and Agreement of even date herewith City and U.S. Bank National Association, as Transfer Agent and as Tender Agent (the "Agreement").

Section 102. Definitions. Capitalized terms used herein and not otherwise defined or modified by this Sale Order shall have the meanings ascribed thereto in the Bond Resolution and the Ordinance.

ARTICLE II TERMS OF THE SERIES 2005-B BONDS

Section 201. Designation of Series and Principal Amounts. The Series 2005-B Bonds shall be designated as "Water Supply System Revenue Senior Lien Bonds (Variable Rate Demand), Series 2005-B." No other bonds shall be issued as Additional Securities bearing such designation.

The Series 2005-B Bonds are intended at the time of issuance to be Series 2005 Senior Lien Project Bonds and are secured on parity with all other outstanding Senior Obligations and Additional Securities and Ancillary Obligations of equal Priority of Lien as to the Pledged Assets of the System with Senior Obligations. The rights of owners of the Series 2005-B Bonds to the Pledged Assets of the System are superior to the rights of the owners of all Second Lien Bonds, Ancillary Obligations on a parity therewith, and Junior Lien Obligations.

Section 202. Purpose of Series 2005-B Bonds. The Series 2005-B Bonds shall be issued as Additional Securities for purposes of obtaining funds to finance a portion of the Project pursuant to the authority contained in Section 20(C)(2) of the Ordinance.

The proceeds of the Series 2005-B Bonds will be used for paying a portion of the costs of the Project; paying a portion of the cost of a Credit Facility in order to fund the Series 2005

Senior Lien Project Bond Reserve Requirement allocated to the Series 2005-B Bonds; and paying a portion of the Issuance Costs allocated to the Series 2005-B Bonds.

Section 203. Terms of Series 2005-B Bonds.

The Series 2005-B Bonds shall bear interest at variable rates, subject to conversion to a fixed rate, upon the terms and conditions specified in the Agreement. The Series 2005-B Bonds shall initially be issued in the Weekly Mode (such interest rate Mode and all such other interest rate Modes described herein, as defined in the Agreement), but may be converted to and from the Daily Mode, the Weekly Mode, the Commercial Paper Rate Mode, the Auction Rate Mode, and the Term Rate Mode, or may be converted to the Fixed Rate Mode until maturity. The form of the Agreement is hereby approved with such changes, additions, deletions and modifications as subsequently approved by the Finance Director and the execution of the Agreement by the Finance Director shall constitute conclusive evidence of such approval.

As the result of the application of the Morgan Stanley Swap Agreement, the Series 2005-B Bonds will be treated as Fixed Rate Securities under the Ordinance with an interest rate of 4.71%.

Certain terms relating to the Series 2005-B Bonds and the purchase thereof shall be as follows:

Type:	Current Interest Variable Rate Term Bond
Authorized Denominations:	\$100,000 or integral multiples of \$5,000 in excess thereof
Aggregate Original Principal Amount:	\$195,000,000.00
Capitalized Interest:	\$0
Issuance Costs:	\$2,119,542.29
Dated Date:	March 23, 2005
Final Maturity Date:	July 1, 2035
Net Original Issue Discount/Premium:	\$0
Interest Payment Dates (Weekly Mode):	First Business Day of each month, commencing April 1, 2005
Interest Payment Dates (Other Modes):	As provided in the Agreement
Regular Record Date:	As provided in the Agreement under the definition of Record Date

Purchase Price: \$194,571,750.00 (consisting of the original principal amount of \$195,000,000.00 less Underwriters' discount of \$428,250.00).

Transfer Agent: U.S. Bank National Association, Detroit, Michigan

Underwriters: Siebert, Brandford Shank & Co., LLC
Bear, Stearns & Co. Inc.
Lehman Brothers, Inc.

Underwriters' Discount: \$428,250.00

Numbering: From RB-1 upward

Section 204. Maturity Schedule. The Series 2005-B Bonds shall mature on July 1 of the year, shall bear interest from their dated date to date of payment and shall be sold at the prices or yields as follows:

<u>Year of</u> <u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u> <u>Per Annum</u>	<u>Price or</u> <u>Yield</u>
2035	\$195,000,000	Variable	100%

Interest shall be calculated as provided in the Agreement.

Section 205. Redemption of Series 2005-B Bonds. The Series 2005-B Bonds shall be subject to optional redemption and mandatory sinking fund redemption upon the terms and conditions set forth in the Bond Resolution and in this Sale Order as provided below and in the Agreement:

(A) The Series 2005-B Bonds shall be subject to optional redemption upon the terms and conditions set forth in the Agreement.

(B) Notice of redemption shall be given to the registered owners of the Series 2005-B Bonds or portions of Series 2005-B Bonds to be redeemed by mailing of such notice by first class mail prior to the date fixed for redemption in accordance with the schedule set forth below to the registered owners at the addresses of the registered owners as shown on the registration books as of the date of such mailing kept by the Transfer Agent. Series 2005-B Bonds called for redemption shall not bear interest after the date fixed for redemption, whether presented for redemption or not, provided that funds are on hand with the Transfer Agent to redeem the Series 2005-B Bonds or portions of Series 2005-B Bonds called for redemption. Provider Securities shall be redeemed prior to any other Series 2005-B Bonds.

<u>Mode</u>	<u>Maximum Days Notice Before Redemption</u>	<u>Minimum Days Notice Before Redemption</u>
Daily Rate	30	15
Weekly Rate	30	15
Commercial Paper Rate	30	15
Term Rate	30	15
Auction Rate	45	15
Fixed Rate	45	30

In case less than the full amount of an outstanding Series 2005-B Bond is called for redemption, the Transfer Agent, upon presentation of the Series 2005-B Bond called in part for redemption, shall register, authenticate, and deliver to the registered owner, a new Series 2005-B Bond of the same type and the same maturity, in the principal amount of the portion of the original Series 2005-B Bond not called for redemption.

(C) Mandatory Sinking Fund Redemption of the Series 2005-B Bonds. The Series 2005-B Bonds shall be subject to mandatory sinking fund redemption by lot, from monies on deposit in the Series 2005 Senior Term Bond Sinking Fund Account, on July 1 of each of the years set forth below at the redemption price of 100% of the principal amount of Series 2005-B Bonds to be so redeemed plus accrued interest on the principal amount of the Series 2005-B Bonds to be so redeemed to the date fixed for redemption, without premium, with the Mandatory Redemption Requirements set forth below.

\$195,000,000 Series 2005-B Bonds Maturing July 1, 2035			
<u>July 1</u>	<u>Mandatory Redemption Requirement</u>	<u>July 1</u>	<u>Mandatory Redemption Requirement</u>
2010	\$1,800,000	2023	\$ 3,200,000
2011	1,900,000	2024	3,300,000
2012	2,000,000	2025	3,500,000
2013	2,100,000	2026	3,600,000
2014	2,200,000	2027	3,800,000
2015	2,300,000	2028	3,900,000
2016	2,400,000	2029	4,100,000
2017	2,500,000	2030	4,300,000
2018	2,600,000	2031	4,500,000
2019	2,700,000	2032	4,700,000
2020	2,800,000	2033	4,900,000
2021	3,000,000	2034	5,100,000
2022	3,100,000	2035	114,700,000*

* Final maturity.

The City will receive a credit with respect to any Mandatory Redemption Requirement on account of Term Bonds of the same maturity that have been redeemed (other than by application of Mandatory Redemption Requirements) or otherwise acquired by the City prior to the giving of the notice of redemption described below and that have not been applied as a credit against any other Mandatory Redemption Requirements. Not less than 40 days prior to any Mandatory Sinking Fund Redemption Date for Term Bonds, the City shall give notice to the Transfer Agent that such Term Bonds are to be so credited. Each such Term Bond shall be credited by the Transfer Agent at 100% of the principal amount thereof against the Mandatory Redemption Requirement, and the principal amount of Term Bonds to be redeemed on such Mandatory Sinking Fund Redemption Date shall be reduced accordingly and any excess over such amount shall be credited to future Mandatory Redemption Requirements in such order as the City shall elect; provided, however, that any excess resulting from the purchase, at less than par, of Term Bonds may be transferred to the Receiving Fund. Mandatory Redemption Requirements may also be satisfied as provided in Section 13(C)(2) of the Ordinance.

Notice of redemption shall be given to the registered owners of the Series 2005-B Bonds or portions of Series 2005-B Bonds to be redeemed by mailing of such notice by first class mail not less than 30 days prior to the date fixed for redemption to the registered owners at the addresses of the registered owners as shown on the registration books as of the date of such mailing kept by the Transfer Agent. Series 2005-B Bonds called for redemption shall not bear interest after the date fixed for redemption, whether presented for redemption or not, provided that funds are on hand with the Transfer Agent to redeem the Series 2005-B Bonds or portions of Series 2005-B Bonds called for redemption.

In case less than the full amount of an outstanding Series 2005-B Bond is called for redemption, the Transfer Agent, upon presentation of the Series 2005-B Bond called in part for redemption, shall register, authenticate, and deliver to the registered owner, a new Series 2005-B Bond of the same type and the same maturity, in the principal amount of the portion of the original Series 2005-B Bond not called for redemption.

(D) Special mandatory redemption of Provider Securities shall be as provided in the Agreement and in the applicable Liquidity Facility.

Section 206. Reserve Requirement. The Senior Lien Bond Reserve Requirement, after issuance of the Series 2005 Bonds, will be \$109,825,665.63. Of this amount, \$4,000,000 will be funded by the Credit Facility described in Section 702 hereof and the balance will be funded by cash and Credit Facilities already on deposit in the Senior Lien Bond Reserve Account.

ARTICLE III APPROVAL OF BOND PURCHASE AGREEMENT AND OFFICIAL STATEMENT

Section 301. Approval of Underwriters and the Bond Purchase Agreement. The Series 2005-B Bonds shall be sold to Siebert Brandford Shank & Co., LLC, as representative of the underwriters listed herein (the "Underwriters") pursuant to the Bond Purchase Agreement between the City and the Underwriters of even date herewith (the "Bond Purchase Agreement"),

relating to the Series 2005-B Bonds in substantially the form presented on this date to the Finance Director. The purchase prices, discounts and premiums for the Series 2005-B Bonds, as set forth therein and herein are hereby approved.

Section 302. Approval of Official Statement. The form of the Official Statement relating to the Series 2005-B Bonds and the City's Water Supply System Revenue Senior Lien Bonds, Series 2005-A, Water Supply System Revenue Refunding Senior Lien Bonds, Series 2005-C, and Water Supply System Revenue Refunding Second Lien Bonds, Series 2005-D (collectively, the "Series 2005 Bonds") dated March 11, 2005, is ratified and confirmed as the Official Statement of the City with respect to the Series 2005 Bonds.

ARTICLE IV TRUSTEE, TRANSFER AGENT, AND TENDER AGENT

Section 401. Trustee and Tender Agent. U.S. Bank National Association, is hereby confirmed as Trustee, Transfer Agent, and Tender Agent for the Series 2005 Bonds. U.S. Bank National Association, shall signify its acceptance of the duties and obligations imposed upon it under the Agreement by its execution thereof in each capacity on the date of delivery of the Series 2005 Bonds. Any successor Trustee, Transfer Agent and Tender Agent must agree to accept the duties of the Trustee, Transfer Agent, and Tender Agent. The Trustee, Transfer Agent, and Tender Agent shall not be removed or resign in any of such capacities until a successor in such capacity has been appointed.

ARTICLE V LIQUIDITY FACILITY

Section 501. The Liquidity Facility. A. Execution and delivery of the Standby Bond Purchase Agreement (the "Liquidity Facility") among the City, U.S. Bank National Association, and Dexia Credit Local, acting through its New York Branch (the "Bank") for liquidity support with respect to the Series 2005-B Bonds under the Agreement, on file with the Finance Director, is hereby approved, with such changes, additions, modifications and deletions as evidenced by the Finance Director's execution thereof.

B. All fees and expenses payable by the City to the Bank under the Liquidity Facility shall be payable from the Operation and Maintenance Fund as Ancillary Obligation Fee and Expenses to the extent provided by the provisions of the Ordinance.

C. The Bank shall receive copies of all notices required to be delivered to Bondholders and, on an annual basis, copies of the City's audited financial statements and Annual Budget.

D. Any notice that is required to be given to a holder of the Series 2005-B Bonds or to the Trustee shall also be given to the Bank.

E. The Bond Insurer (hereinafter defined) may not be substituted as insurer of the Series 2005-B Bonds, and the Bond Insurance Policy (hereinafter defined) may not be surrendered, canceled, or terminated, or amended or modified in any material respect, without (i)

the prior written consent of the Bank and (ii) a Rating Confirmation (as defined in the Agreement).

ARTICLE VI
APPLICATION OF SWAP AGREEMENT AND
CLARIFICATION OF PAYMENTS UNDER ORDINANCE

Section 601. Application of Swap Agreement. The Morgan Stanley Swap Agreement is hereby applied to the Series 2005-B Bonds, effective as of April 1, 2005.

Section 602. Compliance With Swap Management Plan. The Finance Director hereby determines and confirms that the Morgan Stanley Swap Agreement complies in all respects with the provisions of the City's Swap Management Plan as now in effect.

Section 603. Swap Provider Guidelines. The Morgan Stanley Swap Agreement is, and any other Hedge to be entered into by the City with respect to Outstanding Securities or Additional Securities must be, a Qualified Derivative Agreement as defined in and satisfying the requirements set forth on Exhibit A attached hereto and incorporated herein by this reference.

Section 604. Clarification of Definitions. For purposes of interpreting and clarifying the meanings of the following terms under the Ordinance, the Finance Director on behalf of the City and with the concurrence of legal counsel states and avers that:

"Ancillary Obligation Fees and Expenses" includes, but is not limited to, commitment fees, indemnification costs, tax or other cost gross-up expenses and attorney fees and expenses owing to a Hedge or Financial Facility provider by the City.

"Interest Installment Requirement" includes (i) regularly scheduled payments on Hedge Obligations of the same Priority of Lien as the Securities to which they relate; (ii) Reimbursement Obligations of the same Priority of Lien to the Securities to which they relate, and (iii) the amount of interest accrued and to accrue to and including the last day of the month on Reimbursement Obligations of the same Priority of Lien to the Securities to which they relate.

"Principal Installment Requirement" includes (i) the amount of redemption premiums, payable within such month on Outstanding Securities of the same Priority of Lien; (ii) Reimbursement Obligations in respect of principal payments on related Securities of the same Priority of Lien; and (iii) Hedge Termination Payments on Hedges related to Securities of the same Priority of Lien.

Section 605. Priority of Payments on Ancillary Obligations. For purposes of interpreting the Priority of Lien of Ancillary Obligations under the Ordinance, the Finance Director on behalf of the City and with the concurrence of legal counsel states and avers that:

Anything in the Ordinance to the contrary notwithstanding, the City acknowledges and agrees that any provider of Hedges or Financial Facilities having Parity Ancillary Obligations

may agree to subordinate its payment rights to other payments of the same or a lower Priority of Lien under the Ordinance.

ARTICLE VII CREDIT ENHANCEMENT

Section 701. Bond Insurance. The commitment dated February 7, 2005 from Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto (the "Bond Insurer") for a municipal bond new issue insurance policy with respect to the Series 2005-B Bonds (the "Bond Insurance Policy") is hereby accepted. The Finance Director hereby determines that the Bond Insurance Policy is in the best financial interests of the City and the System. The following shall govern claims procedures under the Bond Insurance Policy:

(a) If, on the third day preceding any interest payment date for the Series 2005-B Bonds there is not on deposit with the Transfer Agent sufficient moneys available to pay all principal of and interest on the Series 2005-B Bonds due on such date, the Transfer Agent shall immediately notify the Bond Insurer and U.S. Bank Trust National Association, New York, New York or its successor as its Fiscal Agent (the "Fiscal Agent") of the amount of such deficiency. If, by said interest payment date, the City has not provided the amount of such deficiency, the Transfer Agent shall simultaneously make available to the Bond Insurer and to the Fiscal Agent the registration books for the Series 2005-B Bonds maintained by the Transfer Agent. In addition:

(i) The Transfer Agent shall provide the Bond Insurer with a list of the Series 2005-B Bondholders entitled to receive principal or interest payments from the Bond Insurer under the terms of the Bond Insurance Policy and shall make arrangements for the Bond Insurer and its Fiscal Agent (1) to mail checks or drafts to Series 2005-B Bondholders entitled to receive full or partial interest payments from the Bond Insurer and (2) to pay principal of the Series 2005-B Bonds surrendered to the Fiscal Agent by the Series 2005-B Bondholders entitled to receive full or partial principal payments from the Bond Insurer; and

(ii) The Transfer Agent shall, at the time it makes the registration books available to the Bond Insurer pursuant to (i) above, notify Series 2005-B Bondholders entitled to receive the payment of principal of or interest on the Series 2005-B Bonds from the Bond Insurer (1) as to the fact of such entitlement, (2) that the Bond Insurer will remit to them all or part of the interest payments coming due subject to the terms of the Bond Insurance Policy, (3) that, except as provided in paragraph (b) below, in the event that any Series 2005-B Bondholder is entitled to receive full payment of principal from the Bond Insurer, such Series 2005-B Bondholder must tender his Series 2005-B Bond with the instrument of transfer in the form provided on the Series 2005-B Bond executed in the name of the Bond Insurer, and (4) that, except as provided in paragraph (b) below, in the event that such Series 2005-B Bondholder is entitled to receive partial payment of principal from the Bond Insurer, such Series 2005-B Bondholder must tender his Series 2005-B Bond for payment first to the Transfer Agent, which shall note on such Series 2005-B Bond the portion of principal paid by the Transfer Agent, and then, with an acceptable form of assignment executed in the name of the Bond Insurer, to the Fiscal Agent, which will then pay the unpaid portion of principal to the Series 2005-B Bondholder subject to the terms of the Bond Insurance Policy.